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Qualified Investors. Any investment or investment activity to which the Document relates is available only to: (1) in the United Kingdom, relevant persons; and (2) in any Member State, Qualified Investors and other persons who are permitted to subscribe for the Ordinary Shares described therein pursuant to an exemption from the Prospectus Directive and other applicable legislation, and will only be engaged in with such persons.

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The materials relating to the offering described in the Document do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

No action has been or will be taken in any jurisdiction by the Company, the Selling Shareholder or any of the Managers that would, or is intended to, permit a public offering of the securities described in the Document, or possession or distribution of a prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to those securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any of their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Company, and the Selling Shareholder in such jurisdiction.

The Document has been sent to you or accessed by 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 the Company, the Selling Shareholder, any of the Managers or any of their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Company, the Selling Shareholder, any of the Managers or any of their respective affiliates accepts any liability or responsibility whatsoever, whether arising in tort, contract or otherwise which they might have in respect of this electronic transmission, the Document or the contents thereof, or in respect of any difference between the document distributed to you in electronic format and the hard copy version that will be provided to you at a later date or is available to you on request from the Company or any Managers. Please ensure that your copy is complete.

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CYBG

PROSPECTUS

February 2016

This document comprises a prospectus relating to CYBG PLC (the "**Company**") and has been prepared in accordance with the Prospectus Rules (the "**Prospectus Rules**") of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") prepared in connection with the proposed offer of ordinary shares in the Company (the "**Shares**") (the "**Global Offer**"). A copy of this Prospectus has been filed with the FCA and has been made available to the public as required by section 3.2 of the Prospectus Rules.

Application will be made to the UK Listing Authority (the "**UKLA**") for all of the issued Shares to be admitted to the premium listing segment of the Official List of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**" or "**LSE**") for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities (together, "**Admission**"). Admission to trading on the London Stock Exchange's main market for listed securities constitutes admission to trading on a regulated market. Application will also be made for CHESS Depositary Interests ("**CDIs**") representing the Shares to be quoted on the Australian Securities Exchange (the "**ASX**"). **Conditional dealings in the Shares are expected to commence on the London Stock Exchange on or around 3 February 2016 and deferred settlement trading in the CDIs is expected to commence on the ASX on or around 4 February 2016. It is expected that Admission will become effective and that unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on or around 8 February 2016 and normal settlement trading of the CDIs will commence on the ASX on or around 17 February 2016. All dealings in Shares before the commencement of unconditional dealings will be on a "when issued" basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned.**

The Company and its directors, whose names appear on page 81 of this Prospectus (the "**Directors**"), accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Prospective investors should read the whole of this Prospectus and, in particular, "Risk Factors" for a discussion of certain risks and other factors that should be considered in connection with an investment in the Shares.

CYBG PLC

(Incorporated and registered in England and Wales under the Companies Act 2006 with registered no. 9595911)

Global Offer of 219,828,814 Shares at an Offer Price of 180p per Share and admission to the premium listing segment of the Official List and to trading on the London Stock Exchange

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Joint Global Co-ordinator, Joint Bookrunner and Sponsor

Morgan Stanley

Joint Global Co-ordinators and Joint Bookrunners

BofA Merrill Lynch **Macquarie Capital**

Joint Bookrunner

J.P. Morgan Cazenove

Co-Lead Managers

Keefe, Bruyette & Woods, a Stifel Company **RBC Capital Markets**

Share capital immediately following Admission

Issued and fully paid

Nominal Value	Number
£1.25	879,315,256

Reliance on this Prospectus

Prior to making any decision as to whether to invest in Shares or other securities of the Company, prospective investors should read this Prospectus in its entirety.

In making any investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Global Offer, including the merits and risks associated. Investors should rely only on the information contained in this Prospectus. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Company or National Australia Bank Limited ("**NAB**") who pursuant to the underwriting agreement described in paragraph 18.1 of Part 14: "*Additional Information – Material Contracts – Underwriting Agreement*", has agreed to sell Shares in the Global Offer (the "**Selling Shareholder**") or any of Morgan Stanley & Co. International plc ("**Morgan Stanley**"), Macquarie Capital (Europe) Limited ("**Macquarie Capital**"), Merrill Lynch International ("**BofA Merrill Lynch**"), J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove) ("**J.P. Morgan Cazenove**"), Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods, a Stifel Company) ("**Keefe, Bruyette & Woods, a Stifel Company**") or RBC Europe Limited (trading as "**RBC Capital Markets**") (together, the "**Managers**").

The contents of this Prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult their own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

The Prospectus does not constitute an offer to sell, or an invitation to purchase, or the solicitation of an offer to buy, any Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Date: 3 February 2016.

Advisers

Morgan Stanley, which is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the FCA and the PRA, Macquarie Capital, which is regulated by the FCA, BofA Merrill Lynch, which is authorised by the PRA and regulated by the FCA and the PRA, J.P. Morgan Cazenove, which is authorised by the PRA and regulated by the FCA and the PRA, Keefe, Bruyette & Woods, a Stifel Company, which is authorised and regulated by the FCA and RBC Capital Markets, which is authorised by the PRA and regulated by the FCA and PRA are each acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Global Offer. They will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Global Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Global Offer or the contents of this Prospectus or any transaction, arrangement or other matter referred to in this Prospectus.

In connection with the Global Offer, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Shares as a principal position and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this Prospectus to Shares being issued, offered, subscribed, acquired, purchased or otherwise dealt with should be read as including any issue or offer to, or subscription, acquisition, purchase or dealing by, the Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Each of the Managers and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company and the Selling Shareholder and certain of their respective affiliates, for which they would have received customary fees. Each of the Managers and any of their respective affiliates may provide such services to the Company and the Selling Shareholder and any of their respective affiliates in the future. In addition, certain of the Managers and any of their respective affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Managers (or their affiliates) may from time to time acquire, hold or dispose of Shares.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers by the FSMA or the regulatory regime established thereunder or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Managers accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares, the Selling Shareholder, the Directors or the Global Offer. Each of the Managers accordingly disclaims, to the fullest extent permitted by applicable law, all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise be found to have in respect of this Prospectus or any such statement.

No representation or warranty, express or implied, is made by any of the Managers named herein as to the accuracy, completeness or verification of the information contained in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by any of the Managers in this respect whether as to the past or the future.

Over-allotment and Stabilisation

In connection with the Global Offer, the Selling Shareholder has granted Morgan Stanley, as stabilising manager (the "**Stabilising Manager**") on behalf of the Managers, the option to require the Selling Shareholder to sell additional Shares at the Offer Price (the "**Over-allotment Option**") which is exercisable in whole or in part, upon notice by the Stabilising Manager, for the period commencing on the date of the commencement of conditional dealings in the Shares on the London Stock Exchange and ending 30 calendar days thereafter ("**Stabilisation Period**"). Pursuant to the Over-allotment Option, the Stabilising Manager may require the Selling Shareholder to sell additional Shares at the Offer Price, *inter alia*, to cover over-allotments, if any, in connection with the Global Offer and/or to cover short positions resulting from stabilisation transactions. Pursuant to the Over-allotment Option, the Stabilising Manager may also require the Selling Shareholder to sell additional Shares at the Offer Price for the purpose of those Shares being transmuted into CDIs for sale on the

ASX in the Stabilisation Period for stabilisation purposes. Any exercise of the Over-allotment Option may be settled by the Selling Shareholder in cash. For further details see paragraphs 5 and 12 of Part 12: "*Details of the Global Offer*".

Any Shares sold by the Selling Shareholder following the exercise of the Over-allotment Option will rank *pari passu* in all respects with the other Shares (including the Sale Shares), including for all dividends and other distributions declared, made or paid on the Shares, will be sold on the same terms and conditions as the Shares being issued in the Global Offer and will form a single class for all purposes with the other Shares.

In connection with the Global Offer and the Demerger, the Stabilising Manager or any of its agents may, (but will be under no obligation to), to the extent permitted by applicable law, over-allot or effect other stabilisation transactions with a view to supporting, stabilising or maintaining the market price of the Shares or the CDIs or any options, warrants or rights with respect to, or interests in, the Shares or the CDIs, in each case at a level higher than that which might otherwise prevail in the open market. Such transactions may be effected on any securities market or stock exchange, in over-the-counter markets or otherwise and may be undertaken at any time during the Stabilisation Period. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Shares or CDIs above the Offer Price. Except as required by any legal or regulatory obligation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotment and/or stabilisation transactions in connection with the Global Offer or the Demerger.

NOTICE TO OVERSEAS SHAREHOLDERS

United States

The Shares offered pursuant to the Global Offer have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or under any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States, except to qualified institutional buyers ("**QIBs**"), as defined in, and in reliance on, the exemption from the registration requirements provided in Rule 144A under the Securities Act ("**Rule 144A**") or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Prospective purchasers are hereby notified that sales of Shares may be made in reliance on an exemption from the provisions of Section 5 of the Securities Act.

The Managers, through their respective selling agents, may arrange for the Global Offer and resale of the Shares in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). Any offer or sale of shares in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Exchange Act. For a description of these and certain further restrictions, see paragraphs 12 and 13 of Part 12: "*Details of the Global Offer*". Please note that by receiving the Prospectus, purchasers shall be deemed to have made certain representations, acknowledgements and agreements set out therein including, without limitation, those set out in paragraphs 12 and 13 of Part 12: "*Details of the Global Offer*".

Until 40 days after the commencement of the Global Offer, an offer or sale of any of the Shares within the United States by any dealer (whether or not participating in the Global Offer) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another applicable exemption from registration under the Securities Act.

This Prospectus is being furnished on a confidential basis only to persons reasonably believed to be QIBs in the United States. Recipients of this Prospectus in the United States are hereby notified that this document has been furnished to them on a confidential basis and is not to be reproduced, retransmitted or otherwise redistributed, in whole or in part, under any circumstances. Furthermore, recipients are authorised to use it solely for the purpose of considering a purchase of the Shares offered by this Prospectus and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus for any other purpose. This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the Shares offered by this Prospectus. Such recipients of this

Prospectus agree to the foregoing by accepting delivery of this Prospectus. This agreement shall be relied upon by the Company, the Managers and their respective affiliates and agents, as well as persons acting on their behalf.

THE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY OTHER FEDERAL OR STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE GLOBAL OFFER OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Australia

The Shares have not been and will not be registered or qualified for distribution or sale under the applicable securities laws of Australia. The Shares may not be offered for sale or subscription or sold, delivered or subscribed directly or indirectly in Australia or to, or for the account or benefit of, any national, resident or citizen of Australia, save to persons who are both (1) persons to whom an offer of securities may be made without a disclosure document in accordance with Part 6D.2 of the Corporations Act and (2) "wholesale clients" within the meaning of section 761G of the Corporations Act.

Canada

The Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 *Underwriting Conflicts* (**NI 33-105**), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Overseas Shareholders

The distribution of this Prospectus and the offer of the Shares in certain jurisdictions may be restricted by law. Other than in the UK, no action has been taken or will be taken by the Company, the Selling Shareholder or the Managers to permit a public offering of the Shares or to permit the possession, issue or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Shares) in any jurisdiction where action for that purpose may be required or doing so is restricted by law. Accordingly, neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Global Offer and the distribution of this Prospectus are subject to the restrictions set out in paragraphs 14 and 15 of Part 12: "*Details of the Global Offer*". This Prospectus does not constitute an offer of, or the solicitation of an offer to subscribe for or purchase, any of the Shares to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdictions.

In addition, the Shares are subject to restrictions on transferability and resale in certain jurisdictions and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risk of this investment for an indefinite period of time. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Further information with regard to the restrictions on the distribution of this Prospectus and the offering, sale and transfer and resale of the Shares is set out at paragraphs 14 and 15 of Part 12: "*Details of the Global Offer*". Each purchaser of Shares will be deemed to have made the relevant representations made therein.

CONTENTS

SUMMARY INFORMATION

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A-E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable."

SECTION A – INTRODUCTION AND WARNINGS		
Element		
A.1	**Introduction**	The following information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus (the "**Prospectus**"). Any decision by a prospective investor to invest in the ordinary shares of the Company (the "**Shares**") should be based on a consideration of the document as a whole. Investors should therefore read this entire document and not rely solely on this summary. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area ("**EEA**"), no civil liability will attach to the Company and the Directors in any such member state in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Shares. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.
A.2	**Consent to use of prospectus for subsequent resale**	Not applicable
SECTION B – ISSUER		
Element		
B.1	**Legal and Commercial Name**	CYBG PLC
B.2	**Domicile / Legal Form / Legislation / Country of Incorporation**	The Company is domiciled in the United Kingdom and is a public limited company incorporated and with its registered office situated in England and Wales. The Company operates under the Companies Act 2006, as amended (the "**Companies Act**").

B.3	**Current operations / principal activities and markets**	With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers, through its strong local community brands Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes. CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million were business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts). CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under a TSA until CYBG Group's planned separation is fully implemented. CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer behaviour and preferences for omni-channel interactions. Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. The Directors believe that CYBG Group's balance sheet is now more resilient and strongly capitalised, which together with the capital protection provided by the Capped Indemnity package, provides a strong foundation to support CYBG Group's targeted future growth. Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring.

		The Directors believe CYBG Group has the key strengths and capabilities to enable its experienced leadership team to execute the strategy as set forth herein.
B.4	**Recent Trends**	CYBG Group's trading performance in the three months ended 31 December 2015 has been in line with the Directors' expectations. CYBG Group has maintained momentum in its loan book, with 6.6 per cent. growth in mortgages in the three months ended 31 December 2015 on an annualised basis with good growth in owner occupied mortgages. CYBG Group has maintained stable lending balances in its core SME book, and the run-off of the non-core SME book has continued as planned. Asset quality has remained strong during the three months ended 31 December 2015 with continuing low impairment charges during the period. CYBG Group continued to acquire personal and business current account customers, with 28,930 gross new business and personal current accounts opened in the three months ended 31 December 2015, delivering net account growth in the period. The Directors believe that CYBG Group's funding position remains strong. CYBG Group's total deposits grew as compared to 30 September 2015, and CYBG Group continues to seek to optimise the mix, pricing and liquidity value of its customer deposit base. Net interest margin in the three months ended 31 December 2015 was stable compared to the year ended 30 September 2015, and in line with guidance at 2.20 per cent. on an annualised basis. CYBG Group's management continues to focus on tight operating cost control, alongside delivery of the planned programme of investment in the franchise to improve the product and service offering to customers and drive growth.
B.5	**Description of Issuer's group**	CYBG PLC is a public limited company, incorporated in England and Wales, whose principal activity will, at admission be, to act as the holding company of CYBG Group and Clydesdale Bank.
B.6	**Shareholders**	As at the date of this Prospectus, NAB owns 100 per cent. of the issued ordinary share capital of the Company (the "**Selling Shareholder**"). Pursuant to the Global Offer, the Selling Shareholder is expected to sell 191,155,491 Shares in the Company, all of which are in issue and held by the Selling Shareholder (the "**Sale Shares**"), representing up to 21.7 per cent. of the issued ordinary share capital of the Company. In addition, 28,673,323 Over-allotment Shares representing up to an additional 15 per cent. of the Global Offer (representing 3.3 per cent. of the issued ordinary share capital of the Company on admission of the Shares to trading on the London Stock Exchange's main market for listed securities and their admission to the premium listing segment of the FCA's Official List ("**Admission**")) may be sold by the Selling Shareholder pursuant to the Over-allotment Option. NAB is in the process of undertaking the demerger of CYBG Group through the distribution of Shares (including in the form of CDIs) to its shareholders (the "**Demerger**"). The Demerger involves NAB demerging 75 per cent. of the Company to NAB Shareholders. The Demerger is scheduled to be completed on 8 February 2016. Following the Global Offer and the Demerger, at Admission, the Selling Shareholder is not expected to hold any Shares (save for any Shares retained by the Selling Shareholder as a result of the Over-allotment Option not being exercised).

B.7	**Selected historical key financial information**	**Consolidated Income Statement Data** The following table sets out consolidated income statement data for CYBG Group for the years ended 30 September 2015, 2014, 2013 and 2012 (collectively, the **"period under review"**). The consolidated income statement data has been extracted without material adjustment from Part 8: "*Historical Financial Information*" (the **"Historical Financial Information"**).

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Interest income and similar income	1,110	1,135	1,209	1,461
Interest expense and similar charges	(323)	(350)	(441)	(584)
Net interest income	**787**	**785**	**768**	**877**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	238	205	225	399
Non-interest income	**240**	**197**	**190**	**255**
Total operating income	**1,027**	**982**	**958**	**1,132**
Personnel expenses	(266)	(287)	(302)	(329)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(868)	(777)	(485)	(645)
Restructuring expenses	(17)	—	—	(149)
Total operating and administrative expenses before impairment losses	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses	**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Analysed as:				
Profit/(loss) before tax, Net gain on capital restructuring and debt buy back, Pension benefits, PPI redress expense, PPI complaint handling fine, Restructuring expenses, IRHP/FRTBL redress expense, Other conduct expenses, Separation costs and Impairment of intangible assets & goodwill	159	222	131	(464)
Net gain on capital restructuring and debt buy back	61	—	—	—
Pension scheme reforms benefit	—	—	—	130
Pension increase exchange gain	18	—	—	—
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	—	—	—
IRHP/FRTBL redress expense	(75)	—	—	—
Other conduct expenses	—	(13)	(50)	(23)
Restructuring expenses	(17)	—	—	(149)
Separation costs	(10)	—	—	—
Impairment of intangible assets and goodwill	(10)	(23)	—	(177)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	—	8	—	9
	(225)	**(190)**	**(44)**	**(647)**

		Significant changes to CYBG Group's operating results occurred in the years ended 30 September 2015, 2014, 2013 and 2012. These changes are discussed below. In 2012, CYBG Group and NAB conducted a strategic review of CYBG Group and the UK banking market in response to the weak macro-economic environment in the UK in 2011 and 2012. The impact of the strategic review and resulting actions led to, *inter alia*, the transfer to NAB of £5,225 million of predominantly CRE assets and associated loans net of provisions on 5 October 2012 and restructuring and other cost management activities in 2012. Following the strategic review, CYBG Group's results were impacted by several non-recurring items, or items otherwise not indicative of the underlying performance of the business, which comprised losses associated with the disposed CRE portfolio in 2012, restructuring expenses, pension scheme-related benefits, conduct-related expenses, separation costs, impairment of intangible assets and goodwill and a net gain on capital restructuring and debt buy back. Net interest income decreased in 2013, primarily due to the disposal of the legacy CRE portfolio, and subsequently increased in 2014 and 2015, primarily due to reductions in interest expense, offsetting the decrease in the average yield on interest-earning assets. Impairment losses on credit exposures decreased significantly from 2012 to 2014, primarily due to a reduction in impairment losses on the CRE portfolio, which were transferred to NAB in 2012. Loss on ordinary activities before tax improved significantly during the period under review from a loss of £803 million for the year ended 30 September 2012 to a loss of £234 million for the year ended 30 September 2014, reflecting improvements in the underlying performance of the business, including a decrease in impairment losses. The loss in 2012 was primarily due to several non-recurring items, or items not otherwise indicative of underlying performance of the business as discussed above. Loss on ordinary activities before tax subsequently increased to a loss of £285 million in the year ended 30 September 2015, mainly due to increased conduct provisions, restructuring expenses, separation costs, an increase in other operating and administrative expenses reflecting increased levels of marketing and investment. These expenses were offset, in part, by the net gain on capital restructuring and debt buy back and a pension increase exchange gain. On 30 September 2015, CYBG Group acquired CYB Intermediaries Holdings Limited ("**CYBIHL**") and its subsidiary CYB Intermediaries Limited ("**CYBIL**") (together the "**Insurance Intermediary**" business) from NAB. The acquisition of the Insurance Intermediary business was made pursuant to a sale and purchase agreement entered into by NAB and Clydesdale Bank on 30 September 2015. Pursuant to the sale and purchase agreement, NAB agreed to sell its entire shareholding in CYBIHL, which holds the Insurance Intermediary business, for a consideration of £4.1 million to Clydesdale Bank. As the acquisition took place at the end of the 2015 financial year, the financial results of the Insurance Intermediary business are not

		included in the Historical Financial Information or the consolidated income statement data on the Management Basis below. The following table sets out selected income statement data for the Insurance Intermediary business for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Total income	**22**	**23**	**31**	**41**
Operating and administrative expenses	(6)	(8)	(9)	(11)
Underlying profit before tax	**16**	**15**	**22**	**30**
Tax	(3)	(3)	(5)	(8)
Profit after tax	**13**	**12**	**17**	**22**

The results for the Insurance Intermediary business set out above comprise the gross income and expenses of the business, which includes an expense for existing income share arrangements with CYBG Group of £5 million in the financial year ending 30 September 2015 (2014: £6 million, 2013: £7 million, 2012: £10 million). Accordingly, the impact to CYBG Group's results arising from the consolidation of the Insurance Intermediary business would have been additional income of £17 million in the year ending 30 September 2015 (2014: £17 million, 2013: £24 million, 2012: £31 million), additional operating expenses of £1 million (2014: £2 million, 2013: £2 million, 2012: £1 million), and a tax charge of £3 million (2014: £3 million, 2013: £5 million, £2012: £8 million).

In order to better understand the underlying performance of CYBG Group, several non-recurring items, or items not otherwise indicative of the underlying performance of the business, have been reported separately from CYBG Group's underlying results of operations on the Management Basis. The Directors believe that the results of operations on the Management Basis provides useful supplemental information to better assess the underlying trends and business performance of CYBG Group and to facilitate more meaningful period-to-period comparisons. The Directors believe that the Management Basis provides a more complete picture of, and enables prospective investors to more fully understand, the Historical Financial Information.

The following table sets out consolidated income statement data on the Management Basis for CYBG Group that, unless otherwise specified, has been extracted or derived, without material adjustment, from the Historical Financial Information. The income statement data for the year ended 30 September 2012 includes adjustments relating to the disposed CRE portfolio that are unaudited.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
				(unaudited)
Interest income and similar income	1,110	1,135	1,209	1,300
Interest expense and similar charges	(323)	(350)	(441)	(494)
Net interest income	**787**	**785**	**768**	**806**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	175	205	225	264
Non-interest income	**177**	**197**	**190**	**120**
Total operating income	**964**	**982**	**958**	**926**
Personnel expenses	(282)	(287)	(302)	(315)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(362)	(321)	(305)	(325)
Total operating and administrative expenses before impairment losses	**(727)**	**(686)**	**(683)**	**(715)**
Operating profit before impairment losses	**237**	**296**	**275**	**211**
Impairment losses on credit exposures	(78)	(74)	(144)	(173)
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**
Pension scheme reforms benefit	—	—	—	130
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	—	—	—
IRHP/FRTBL redress expense	(75)	—	—	—
Other conduct	—	(13)	(50)	(23)
Impairment of intangible assets	(10)	(23)	—	(36)
Impairment losses on goodwill	—	—	—	(141)
Disposed legacy CRE portfolio impact	—	—	—	(502)
Restructuring expenses	(17)	—	—	(149)
Separation costs	(10)	—	—	—
Net gain on capital restructuring and debt buy back	61	—	—	—
Pension increase exchange gain	18	—	—	—
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the period	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	—	8	—	9
	(225)	**(190)**	**(44)**	**(647)**

Underlying profit on ordinary activities before tax increased from a profit of £38 million in the year ended 30 September 2012 to a profit of £222 million in the year ended

30 September 2014. The main reason for this increase was a reduction in the impairment losses on credit exposures due to an increase in lower risk mortgage lending, a decrease in higher risk business lending driven by the transfer of the legacy CRE portfolio to NAB, and improvements in the economy. In the year ended 30 September 2015, underlying profit on ordinary activities before tax decreased to £159 million from £222 million in the year ended 30 September 2014, primarily due to a decrease in non-interest income, reflecting the strategy to reduce fees on customer accounts and an increase in marketing to support balance sheet growth and increased levels of investment. Net interest income remained relatively flat in 2015 compared to 2014, primarily due to a decrease in lower cost funding, offset in part by reductions in market interest rates on lending. The expense base contracted in 2013 following the strategic review, primarily due to a reduction in CYBG Group's business banking network and CYBG Group's headcount. In the year ended 30 September 2015, CYBG Group's expense base increased, mainly due to the increased level of marketing to support balance sheet growth and investment in the business, in part offset by the net gain on capital restructuring and debt buy back.

Consolidated Balance Sheet Data

The following table sets out consolidated balance sheet data for CYBG Group that has been extracted or derived, without material adjustment, from the Historical Financial Information. The legacy CRE portfolio was reported in assets held for sale as at 30 September 2012. As a result, there is no Management Basis of presentation applicable to the consolidated balance sheet data.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Assets				
Customer loans[1]	28,783	27,696	26,424	27,575
Cash and balances with central banks	6,431	5,986	6,720	7,927
Investments – available for sale	1,462	1,168	975	1,041
Due from related entities	786	1,487	1,390	1,256
Defined benefit pension assets	52	49	—	—
Accrued interest receivable on customer loans	80	92	81	101
Assets held for sale[2]	—	—	—	5,225
Other assets	1,111	914	1,158	1,257
Total assets	**38,705**	**37,392**	**36,748**	**44,382**
Liabilities				
Customer deposits[3]	26,349	23,989	24,266	26,528
Bonds and notes	3,766	3,453	3,085	3,187
Notes in circulation	1,791	1,831	1,709	1,567
Due to related entities	998	2,677	3,036	7,716
Provisions	1,006	952	315	292
Accrued interest payable on customer deposits	125	175	212	236
Retirement benefit obligations	4	4	202	306
Other liabilities	1,223	1,773	1,474	1,931
Total liabilities	**35,262**	**34,854**	**34,299**	**41,763**
Total equity	3,443	2,538	2,449	2,619
Total liabilities and equity	**38,705**	**37,392**	**36,748**	**44,382**

		(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable) as presented in the Historical Financial Information. (2) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions. CYBG Group transferred assets held for sale to NAB in October 2012. (3) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable) as presented in the Historical Financial Information. Customer loans decreased to £26,424 million as at 30 September 2013 from £27,575 million as at 30 September 2012, mainly as a result of the strategic decision to refocus business lending and tighten risk appetite, in addition to subdued market demand. Customer loans subsequently increased to £27,696 million as at 30 September 2014 and £28,783 million as at 30 September 2015, largely driven by consistent growth in the retail mortgage book, offset in part by a decrease in business lending. Total assets decreased in 2013 primarily due to the disposal of the legacy CRE portfolio in October 2012. Customer deposits decreased to £23,989 million as at 30 September 2014, primarily due to CYBG Group's strategic decision to run-off fixed rate term deposits. Customer deposits subsequently increased to £26,349 million as at 30 September 2015, primarily as a result of an increase in personal deposit balances of £2,116 million to £17,476 million as at 30 September 2015, from £15,360 million as at 30 September 2014. There has been no significant change in the financial condition or operating results of CYBG Group since 30 September 2015, the end of the period covered by the selected historical key financial information**.**
B.8	***Pro forma* financial information**	**Unaudited Pro Forma Financial Information** The unaudited pro forma statement of net assets of CYBG Group as at 30 September 2015 has been prepared to illustrate the effect of the separation of CYBG Group from NAB, which will result in the settlement of certain intercompany balances and reclassification of balances with related parties as external counterparties for outstanding balances.

Unaudited Pro Forma Net Assets as at 30 September 2015

	30 September 2015(1)	Adjustment for Settlement/ Reclassification of intercompany balances(2)	Pro forma net asset statement as at 30 September 2015(3)
		£m	
Assets			
Cash and balances with central banks	6,431	—	6,431
Due from related entities	786	(786)	—
Due from other banks	128	679	807
Investments – available for sale	1,462	—	1,462
Other financial assets at fair value	1,097	—	1,097
Derivative financial instruments	285	—	285
Loans and advances to customers	27,482	—	27,482
Due from customers on acceptances	4	—	4
Current tax assets	4	—	4
Property, plant and equipment	109	—	109
Investment properties	32	—	32
Property inventory	—	—	—
Investments in controlled entities and associates	2	—	2
Intangible assets	265	—	265
Deferred tax assets	389	—	389
Defined benefit pension assets	52	—	52
Other assets	177	—	177
Total assets	**38,705**	**(107)**	**38,598**
Liabilities			
Due to other banks	393	891	1,284
Other financial liabilities at fair value	67	—	67
Derivative financial instruments	534	—	534
Due to customers	26,407	—	26,407
Liabilities on acceptances	4	—	4
Current tax liabilities	—	—	—
Provisions	1,006	—	1,006
Due to related entities	998	(998)	—
Bonds and notes	3,766	—	3,766
Retirement benefit obligations	4	—	4
Deferred tax liabilities	10	—	10
Other liabilities	2,073	—	2,073
Total liabilities	**35,262**	**(107)**	**35,155**
Net assets	**3,443**	**—**	**3,443**

		Notes: (1) The consolidated net assets as at 30 September 2015 are extracted from the Historical Financial Information. (2) Represents the post separation cash settlement of certain balances and recognition of outstanding balances between CYBG Group and NAB assumed to remain at separation as external counterparties. (3) On 8 February 2016, the Company will become the new holding entity of CYBG Group. The Company was incorporated on 18 May 2015 as a wholly owned subsidiary of NAB with a share capital of £1 which was increased to £50,000 on 11 September 2015, and subsequently divided into 40,000 Shares of £1.25 each. A share for share exchange will be carried out on 8 February 2016, by which the Company will acquire the entire share capital of CYBI in exchange for the issue of 879,275,256 new ordinary shares. Under the principles of accounting for common control transactions, the accounting records reflect a continuation of the underlying business of the Company. The pro forma net assets statement as at 30 September 2015 shown above is, therefore, equivalent to the aggregated net assets of the Company and CYBG Group following this group reconstruction. Consequently no pro forma adjustment to the net asset statement has been presented in respect of this group reconstruction.
B.9	**Profit forecast / estimate**	Not applicable; there is no profit forecast or estimate.
B.10	**Audit Report – qualifications**	Not applicable; there is no audit report. There are no qualifications in the accountant's report on the Historical Financial Information.
B.11	**Working Capital – insufficiency**	Not applicable; the Company has sufficient working capital for its present requirements.

SECTION C – SECURITIES

Element		
C.1	**Description of the Global Offer**	**Demerger** The Demerger, which is intended to implement the separation of CYBG Group's operations from the remaining NAB businesses to form two separate corporate groups, involves NAB demerging 75 per cent. of the Company to NAB Shareholders. The majority of NAB Shareholders will be entitled to make certain elections relating to the type of investment in the Company they wish to receive as part of the Demerger. Eligible Australian/New Zealand Shareholders (other than Sale Facility Shareholders) will be entitled to make a Share Election to receive Shares instead of CDIs under the Demerger. The result of the Demerger will be that the Company will operate its business separately from NAB (after the Demerger) as an independent publicly listed company with its head office in Glasgow and listings in the UK and Australia. NAB (after the Demerger) will continue to operate its other existing businesses and remain listed on the ASX.

		The Demerger is not conditional on the Global Offer proceeding, and if the Global Offer of the Sale Shares by the Selling Shareholder does, for any reason, not proceed, the Company will continue to seek Admission for its entire issued and to be issued share capital. **Global Offer** The Global Offer comprises an offer of 191,155,491 Sale Shares. The Sale Shares represent 21.7 per cent. of the issued share capital of the Company. Under the Global Offer, the Sale Shares are being sold to certain institutional and professional investors in the UK and elsewhere outside the United States in reliance on Regulation S under the Securities Act and to QIBs in the United States in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, 28,673,323 Over-allotment Shares (representing approximately 15 per cent. of the maximum number of Sale Shares and 3.3 per cent. of the issued share capital of the Company) are being made available by the Selling Shareholder pursuant to the Over-allotment Option. When admitted to trading, the Shares will be registered with ISIN number GB00BD6GN030 and SEDOL number BD6GN03 and will be traded on the London Stock Exchange under the ticker symbol "CYBG" and on the ASX under the ticker symbol "CYB".
C.2	**Currency of Issue**	British pounds sterling.
C.3	**Issued Share Capital**	The nominal value of the issued ordinary share capital of the Company will be, immediately following Admission, £1,099,144,070 divided into 879,315,256 ordinary shares of £1.25 each, all of which will be in issue and fully paid.
C.4	**Rights attaching to the Shares**	• The Sale Shares being sold pursuant to the Global Offer will, on Admission, rank *pari passu* in all respects with the other Shares in issue, including for voting purposes, and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. • Subject to the provisions of the Companies Act, the Shares carry a right of pre-emption in respect of further issues of any equity securities issued by the Company for cash, such that they must first be offered to Shareholders in proportion to their holdings of Shares. • The Companies Act and Listing Rules allow for the disapplication of pre-emption rights by a special resolution of the Shareholders, whether generally or specifically, for a maximum period not exceeding five years. • Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company. • The Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Shares on- or off-market, subject to the Companies Act and the requirements of the Listing Rules.

C.5	**Restrictions on transfer**	The Shares are freely transferable and there are no restrictions on transfer.
C.6	**Admission to Trading**	Application will be made for all the Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. Application will also be made for the CDIs representing the Shares to be quoted on the ASX.
C.7	**Dividend policy**	In the near term, as CYBG Group seeks to grow its earnings and balance sheet, the Directors will have particular regard to the need to invest in the franchise as a driver for future growth and the need to preserve capital to support the business. Taking this into account and subject to regulatory requirements, it is the Directors' current intention that CYBG Group's inaugural dividend on the Shares would be in respect of the financial year ending 30 September 2017 and reflect only a modest percentage of CYBG Group's earnings. The Directors intend to review on an ongoing basis the expected timing and quantum of any dividend payments in the context of progress on the delivery of CYBG Group's strategy and the broader operating environment. The Directors believe that CYBG Group will, in time, be able to support a dividend distribution of up to approximately 50 per cent. of earnings (after paying Additional Tier 1 distributions).
SECTION D – RISKS		
Element		
D.1	**Risks that are specific to the Issuer or its industry**	CYBG Group's business is subject to inherent risks arising from macro-economic conditions in the UK and levels of retail and business borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, market interest rates and the broader state of the UK economy. As CYBG Group's customer base is predominantly based in the UK, CYBG Group is significantly exposed to the condition of the UK economy particularly house prices, levels of employment, interest rate levels and volatility of consumers' disposable income. Any deterioration or uncertainty and/or volatility in relation to these factors or conditions could have a material adverse effect on CYBG Group's business, financial condition and results of operations. CYBG Group's primary activity is providing banking services to retail customers and to micro, small and medium-sized enterprises ("**SMEs**"), including mortgage lending in the UK secured against residential property. The value of that security is influenced by UK house prices. As at 30 September 2015, 71.2 per cent. of CYBG Group's customer loans by value were mortgages. A fall in property prices could result in an increase in customer defaults leading to higher impairment provisions and losses being incurred by CYBG Group which could reduce CYBG Group's capital and ability to engage in lending and other income generating activities. In addition, a significant increase in house prices could reduce the affordability of homes and could result in a reduction in demand for new mortgages, thereby limiting CYBG Group's ability to grow its mortgage portfolio.

		The performance of CYBG Group is affected by interest rates, which are outside of its control. First, interest rates affect the cost and availability of the principal sources of CYBG Group's funding, which is largely provided by customer deposits. The sustained low interest rate environment in recent years has reduced incentives for consumers to save and reduced the amount of funding from customer deposits that could be provided to banks. Secondly, interest rates impact CYBG Group's mortgage impairment levels as they affect customer affordability, as well as the ability of individuals and SMEs to service loans. An increase in interest rates could lead to an increase in default rates among customers, reduce demand for mortgages and other loans generally and reduce CYBG Group's lending and related income. Thirdly, interest rates affect CYBG Group's net interest income and margins and the recent low interest rate environment has put pressure on net interest margins. If CYBG Group is unable to manage its exposure to interest rate volatility, it could have a material adverse effect on CYBG Group's, reputation, business, financial condition and results of operations. CYBG Group's operations are heavily regulated and it must comply with numerous laws and regulations and may face action from regulators for failures to comply. Regulatory actions pose a number of risks to CYBG Group, 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. CYBG Group may be subject to other penalties or litigation and may settle litigation or regulatory proceedings prior to a final judgement or determination to avoid the costs of continuing to contest liability. Failure to manage these risks adequately could have a material adverse affect on CYBG Group's reputation, business, results of operations, financial condition and prospects. CYBG Group accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets or a reduction in investor appetite for holding CYBG Group's securities may adversely affect CYBG Group's ability to access funds or require CYBG Group to access funds at a higher cost or on unfavourable terms or result in it obtaining funding that does not efficiently match the maturity profile of its assets. CYBG Group is required to maintain minimum levels of capital and reserves of sufficient quality relative to the balance sheet size and risk profile of its operations to meet current and future prudential regulatory requirements including CRD IV and requirements relating to loss-absorbing capacity, achieve its strategic plans and objectives, cover the risks to which it is exposed or protect against unexpected losses. An actual or perceived shortage of capital could have a material adverse effect on CYBG Group's business, which could, in turn, affect the Company's capacity to pay future dividends or implement its business strategy, impacting future growth potential. CYBG Group will be reliant on NAB under the TSA for the provision of certain key services supporting elements of the

		risk, treasury, human resources and finance functional areas, which will require ongoing support from NAB to allow CYBG Group time to develop its own replacement systems and supporting processes. The systems and infrastructure that NAB will use to provide services to CYBG Group may not operate as expected, may suffer periods of reduced compatibility, may not fulfil their intended purpose or may be damaged or interrupted by unanticipated increases in usage, human error, misaligned software updates, unauthorised access, natural hazards or similarly disruptive events. CYBG Group's own functions and processes developed and restructured as part of its separation from NAB may not operate as intended or execution of the separation process and the creation of new processes may not have been properly completed and consequently there is a risk that CYBG Group could suffer operational difficulties which could have a material adverse effect on CYBG Group's business, financial condition and results of operations and prospects. CYBG Group faces both financial and reputational risks as a result of legal and regulatory proceedings, and complaints made to it directly or to the Financial Ombudsman Service ("**FOS**") or other relevant regulatory bodies, both against CYBG Group and against members of the UK banking industry more generally. ***Summary of Conduct Indemnity*** ***Introduction and Scope of Coverage*** As part of the Demerger, NAB and the Company have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide the Company with an indemnity (the "**Capped Indemnity**") in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". Claims may be made by the Company under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter. At the Demerger Date, the maximum amount of cover provided to the Company by the Capped Indemnity (the "**Capped Indemnity Amount**") is expected to be £1.115 billion. This figure is determined as follows: • To achieve the Demerger, the PRA required that there be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015. • Of this £1.7 billion, the Company will be responsible for £120 million of the aggregate liability for Relevant Conduct Matters under a loss sharing arrangement, with NAB being responsible for the remainder (being £1.58 billion). The Company's fixed percentage share of liability for

		any Relevant Conduct Matter under this arrangement is expected to equate to 9.7 per cent. (reflecting the proportion of a liability in respect of a Relevant Conduct Matter that £120 million bears to the Capped Indemnity Amount plus £120 million as at the Demerger Date). • Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015. The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date. The Capped Indemnity Amount as reduced or utilised from time to time in accordance with the Conduct Indemnity Deed is referred to as the "**Unutilised Indemnity Amount**". The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities as at the Demerger Date (being £986 million as at 30 September 2015) providing total cover for conduct costs of £2.1 billion (without taking account of CYBG Group's loss share of £120 million). ***Duration and Termination*** The Capped Indemnity is perpetual in nature save where: • it is fully utilised by CYBG Group; • (i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or (ii) the Unutilised Indemnity Amount, is £100 million or less, in which case NAB will have the right (subject to the agreement of the PRA) to terminate the Capped Indemnity by subscribing for Shares at market price in an amount equal to the Unutilised Indemnity Amount provided that value of the Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**£100 million Termination**"); or • NAB and the Company agree arrangements to terminate or replace the Capped Indemnity (with the consent of the PRA). In particular, NAB and the Company have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary thereafter), seek to agree arrangements to terminate or replace the Capped Indemnity. The Company cannot unreasonably withhold its agreement to a proposal made by NAB pursuant to such discussions involving the Capped Indemnity being replaced by a payment equal to the Unutilised Indemnity Amount to be applied (in whole or in part) in

		subscribing for Shares at market price, provided that the maximum value of the Shares to be subscribed for would not exceed £200 million or if lower, a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**Post-5 Year Equity Subscription Termination**"). It would not be necessary for the Company to seek shareholder approval pursuant to the Listing Rules nor to obtain shareholder authority under the Companies Act to allot Shares to NAB, in order to implement a £100 million Termination or a Post-5 Year Equity Subscription Termination as contemplated by the Conduct Indemnity Deed. ***Principal Risks*** Although the Capped Indemnity provides significant economic protection with respect to historical conduct issues it is subject to the following principal risks: (i) claims may exceed the Capped Indemnity Amount, (ii) the Capped Indemnity is subject to the Loss Sharing Arrangement and therefore the Company is only able to claim for the proportion of the provision or increase that falls within the scope of the Capped Indemnity after deduction of the Loss Share, (iii) provisions relating to historical conduct matters must satisfy certain materiality thresholds, other than existing known conduct matters in relation: (a) to payment protection insurance ("**PPI**"); (b) interest rate hedging products ("**IRHP**") which comprises: standalone interest rate hedging products ("**Standalone IRHP**") and certain tailored business loans, with additional features such as interest rate protection functionality, structured collars, collars or caps ("**Voluntary Scope TBLs**"); and (c) certain fixed rate tailored business loans ("**FRTBLs**"), (iv) claims arising from any retrospective changes in laws and regulations fall outside the scope of the Capped Indemnity, (v) in the event that a duly appointed expert determines that there is a continuing material non-compliance by the Company with its obligations under the Conduct Indemnity Deed, being principally, to cooperate in assessments by the PRA and to provide information to NAB, NAB may suspend or withhold certain payments to the Company and in addition, CYBG Group would be restricted from withdrawing certain amounts from the CYBG Group account in which payments under the Capped Indemnity are held, and (vi) the PRA may undertake a reassessment of the pre-Demerger conduct risks to which CYBG Group is exposed on an annual basis and may determine (at its sole discretion) that the amount of support provided by the Capped Indemnity can be reduced. Any such reduction as a result of such PRA reassessment would be permanent even if there were to be a subsequent increase in exposure to Relevant Conduct Matters after such a reduction. The above and other factors may result in the Company being required to fund the costs of claims relating to certain historical conduct matters from its own capital resources which may not be sufficient to settle or discharge some or all of any such claims. Further, while the Capped Indemnity

		provides CYBG Group with economic protection relating to certain conduct matters, it does not cover all possible impacts of historic conduct issues and CYBG Group may be materially adversely impacted by other risks such as reputational damage to its brand names. Estimates of future redress payments are calculated based on costs from existing cases and there is a risk that the cases to date are not representative of future cases and therefore the existing provisions for PPI, IRHP, FRTBLs and other conduct matters and the protections afforded by the Capped Indemnity may not cover all potential losses and/or may result in CYBG Group incurring significant costs pursuant to the Loss Sharing Arrangement. No assurances can be given that CYBG Group will not incur liability and/or fines in connection with any non-compliance with legislation, any conduct-related legal or regulatory proceedings and/or any claims from customers. Notwithstanding the support provided by the Capped Indemnity, any such non-compliance or legal or regulatory proceedings or claims may not be covered by the Capped Indemnity and could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.
D.3	**Risks relating to the Shares**	Prior to the Global Offer, there has been no public trading market for the Shares. The Company can give no assurance that an active trading market for the Shares will develop or, if developed, can be sustained following the closing of the Global Offer. Following Admission, there may be a period of relatively high volume trading in the Shares and the CDIs. The Company is unable to predict the trading intentions of the persons who receive Shares or CDIs through the Demerger. If substantial amounts of Shares or CDIs are sold in the open market after Admission, the market price of the Shares or CDIs may fall. The Company's initial shareholder base will consist of those shareholders that have received Shares through the Demerger and those that have bought Shares in the Global Offer. As NAB shareholders expected to receive Shares through the Demerger predominantly have registered addresses in Australia, a majority of the Shares will be held, as from a time shortly after Admission, in the form of CDIs traded on the ASX. As a consequence, notwithstanding that CYBG Group has no operations in Australia, the price of the Shares may be subject to significant volatility as a result of fluctuations in the prices of securities on the ASX and general economic conditions in Australia and conversely the price of CDIs may also be subject to volatility as a result of fluctuations in the prices of securities on the London Stock Exchange.
SECTION E – OFFER		
Element		
E.1	**Net Proceeds / Expenses**	The net proceeds (after deducting an aggregate of approximately £32 million comprising underwriting commissions, other estimated offering related fees and expenses, VAT and stamp duty) from the Global Offer for the Selling Shareholder will be in aggregate £363.7 million, assuming the Over-allotment Option is exercised in full.

		Expenses in connection with the Global Offer will be paid by the Selling Shareholder.
E.2	**Reasons for the Global Offer / Use of Proceeds**	The Company will not receive any proceeds from the Global Offer. The Global Offer and the Demerger are being undertaken to establish the Company as a publicly listed company in the UK (its principal place of business), establish a global institutional shareholder base for the Company, widen the Company's access to capital in the future and release capital for NAB from the proceeds of sale.
E.3	**Terms and Conditions of the Global Offer**	Under the Global Offer, the Sale Shares are being sold to certain institutional and professional investors in the UK and elsewhere outside the United States in reliance on Regulation S under the Securities Act and to QIBs in the United States in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, the Over-allotment Shares (up to a maximum of approximately 15 per cent. of the Sale Shares and 3.3 per cent. of the issued share capital of the Company) will be made available by the Selling Shareholder pursuant to the Over-allotment Option. It is expected that CDIs representing the Shares will commence trading on the ASX on a deferred settlement basis on 4 February 2016. Admission is expected to become effective, and unconditional dealings in the Shares are expected to commence on the London Stock Exchange, at 8.00 a.m. on 8 February 2016. It is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 3 February 2016. The earliest date for settlement of such dealings will be 8 February 2016. All dealings in Shares prior to the commencement of unconditional dealings will be on a "when issued basis", will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned. The Global Offer is subject to the satisfaction of conditions which are customary for transactions of this type contained in the Underwriting Agreement, including Admission becoming effective by no later than 8.00 a.m. on 8 February 2016 and on the Underwriting Agreement not having been terminated prior to Admission. The Demerger is not conditional on the Global Offer proceeding, and if the Global Offer of the Sale Shares by the Selling Shareholder does, for any reason, not proceed, the Company will continue to seek Admission for its entire issued and to be issued share capital. None of the Shares may be offered for subscription, sale or purchase or be delivered, or be subscribed, sold or delivered, and this Prospectus and any other offering material in relation to the Shares may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

E.4	**Material Interests**	The Company considers that the Selling Shareholder has interests that are material to the Global Offer by virtue of the size of its existing holding of Shares. The Company does not consider that there is a conflicting interest or that there are other interests, including conflicts of interest, that are material to the Global Offer.
E.5	**Selling Shareholder / Lock-up Arrangements**	The Selling Shareholder is selling 219,828,814 Shares under the Global Offer (assuming full exercise of the Over-allotment Option). The Company has agreed not to issue any new Shares for a period of 180 days following Admission, subject to certain customary exceptions. The Directors have agreed that, subject to certain customary exceptions, during the period of 365 calendar days from the date of Admission, they will not, without the prior written consent of the Managers, sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any Shares (or any interest therein or in respect thereof). Any Shares redelivered to NAB pursuant to stock lending arrangements entered into in connection with stabilisation will not be subject to lock-up arrangements.
E.6	**Dilution**	Not applicable – no new Shares will be issued pursuant to or in connection with the Global Offer.
E.7	**Estimated expenses charged to investor**	Not applicable – there are no commissions, fees or expenses to be charged to investors by the Company or the Selling Shareholder under the Global Offer.

RISK FACTORS

Any investment in the Shares is subject to a number of risks. Prior to investing in the Shares, prospective investors should consider carefully the factors and risks associated with any investment in the Shares, CYBG Group's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below.

Prospective investors should note that the risks relating to CYBG Group, its industry and the Shares summarised in the section of this document headed "Summary Information" are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares. However, as the risks that CYBG Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary Information" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks that investors may face when making an investment in the Shares and should be used as guidance only. Additional risks and uncertainties relating to CYBG Group that are not currently known to CYBG Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects and, if any such risk should occur, the price of the Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this Prospectus and their personal circumstances.

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on CYBG Group's business, results of operations, financial condition, prospects or the market price of the Shares.

RISKS RELATING TO THE MACRO-ECONOMIC ENVIRONMENT IN WHICH CYBG GROUP OPERATES

1. ***CYBG Group is subject to risks arising from macro-economic conditions in the UK.***

CYBG Group's business is subject to inherent risks arising from macro-economic conditions in the UK. In particular, levels of retail and business borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, market interest rates and the broader state of the UK economy.

During the recent global financial crisis, the UK economy experienced turbulence and recession which adversely affected, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets. Although economic indicators in the UK have been improving, the Directors believe the outlook for the UK economy is subject to a number of risks, including that the recovery falters and the UK economy contracts, unemployment levels increase or property prices fall.

As CYBG Group's customer base is predominantly based in the UK, CYBG Group is significantly exposed to the condition of the UK economy. In particular, factors such as UK house prices, levels of employment, interest rates and the amount of consumers' disposable income can each have a material impact on its business. 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 CYBG Group's business, results of operations, financial condition and prospects.

CYBG Group's operations are focussed in its core regions in the UK, including Scotland. CYBG Group could be adversely affected by a lack of legal harmonisation across the UK, including through the further devolution of powers to the Scottish Parliament. For example, differences in regulatory regimes or differing tax legislation between Scotland and England may result in additional compliance and other costs for CYBG Group or adversely impact the financial performance and prospects of CYBG Group's customers. The likelihood of another referendum on Scottish independence would create uncertainty on Scotland's position within the UK, which may adversely impact CYBG Group's associated costs, business, results of operations, financial condition and prospects.

The historical results of operations and financial condition of CYBG Group have been, and its future results of operations and financial condition are likely to continue 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 CYBG Group's business, financial condition, results of operations and prospects.

2. ***CYBG Group faces risks related to volatility in UK house prices.***

CYBG Group's primary activity is providing banking services to retail customers and to micro, small, and medium-sized enterprises ("**SMEs**"), including mortgage lending in the UK secured against residential property. The value of that security is influenced by UK house prices. A substantial proportion of CYBG Group's net interest income is derived from interest paid on its mortgage portfolio. As at 30 September 2015, 71.2 per cent. of CYBG Group's customer loans by value were mortgages (both owner-occupied and buy-to-let). Any deterioration in the quality of CYBG Group's mortgage portfolio could have a material adverse effect on its business, financial condition, results of operations and prospects.

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 customer defaults. Increased defaults could lead to higher impairment provisions and losses being incurred by CYBG Group. Higher impairment provisions could reduce CYBG Group's capital and its ability to engage in lending and other income-generating activities. As a result, a decline in house prices could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

In addition, a significant increase in house prices could have a negative impact on CYBG Group by reducing the affordability of homes for first-time buyers or those looking to purchase more expensive properties and, if such increases were to result in a decrease in the number of customers that could afford to purchase houses, a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting CYBG Group's ability to grow its mortgage portfolio.

The UK Government's intervention into the housing market, both directly through its "Help to Buy" programme and indirectly through the provision of liquidity to the banking sector under the "Funding for Lending Scheme" (the "**FLS**"), may contribute to volatility in house prices. This could occur, for example, as a result of the termination of the "Help to Buy" programme (or its Scottish equivalent scheme), which could lead to a decrease in house prices, or due to the continuation of the "Help to Buy" programme, which could lead to increases in house prices and a resultant "bubble" in the housing market. In addition, new rules promulgated by the FCA following the Mortgage Market Review ("**MMR**") that came into force in April 2014, and amended the existing rules on mortgage lending with changes centered on responsible lending, including increased verification of income, assessment of affordability, interest rate stress tests, and assessments of future changes of borrowers' income which together could make it more difficult for customers to borrow and reduce demand for mortgages. Further, the Finance (No. 2) Act 2015, enacted on 18 November 2015 (the "**Finance (No. 2) Act**"), which introduced provisions to limit the income tax relief on mortgage interest expense available on residential property to buy-to-let landlords from 6 April 2017, may also negatively affect mortgage supply and demand. The future impact of these on the UK housing market and other regulatory changes or UK Government programmes, such as the UK implementation of the European Union Mortgage Credit Directive ("**MCD**") by March 2016, whether or not CYBG Group participates in them, is difficult to predict and plan for. Volatility in the UK housing market occurring as a result of such changes, such as a decrease in mortgage volumes due to stricter lending criteria, or for any other reason, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

3. ***CYBG Group is exposed to risks relating to the supply and affordability of property in the UK.***

CYBG Group's owner-occupied and buy-to-let mortgage lending is dependent on a number of factors related to the supply and affordability of property in the UK.

In October 2014, the PRA issued rules and the FCA issued guidance to 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, implementing a recommendation made in June 2014 by the Financial Policy Committee ("**FPC**") , a Bank of England committee responsible for ensuring financial stability. For CYBG Group to maintain and grow its mortgage portfolio, the prices of new and existing properties 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 customer income, whether as a result of rising house prices and/or low customer income growth, potential customers will be unable to borrow and the supply of mortgages will decrease.

CYBG Group's owner-occupied mortgage lending requires a supply of newly built or developed property coming to the market that relies on mortgage lending for financing, as well as transaction volumes within the market for existing property being at a sufficiently high level to support a profitable level of owner-occupied mortgage lending and income from mortgage fees. A decrease in housing transaction volumes could lead to a reduction in demand for owner-occupied mortgages and a fall in related mortgage fees, which could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

CYBG Group's buy-to-let lending primarily targets lending to high and medium net worth clients looking to diversify their investments. The buy-to-let market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties. In addition, the Finance (No. 2) Act, which introduced provisions to limit the income tax relief on mortgage interest expense on residential property available to buy-to-let landlords from 6 April 2017, may result in lower yields on buy-to-let property investments. These factors, and the proposed introduction of a 3 per cent. stamp duty surcharge on purchases of buy-to-let and second homes intended to apply generally to sales completed on or after 1 April 2016 announced in the Chancellor's Autumn Statement in November 2015 and any other adverse tax changes for buy-to-let investors, could make the purchase of buy-to-let properties a less viable investment opportunity and reduce the demand for buy-to-let mortgages.

4. ***CYBG Group faces risks associated with interest rate levels and volatility.***

Interest rates, which are impacted by factors outside of CYBG Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect CYBG Group's results of operations, financial condition and return on capital in three principal areas: cost and availability of funding, impairment levels and net interest income and margins.

First, interest rates affect the cost and availability of the principal sources of CYBG Group's funding, which is largely provided by customer deposits (in the form of personal current accounts ("**PCAs**"), business current accounts ("**BCAs**") and savings accounts) and secured term wholesale funding, in the form of residential mortgage-backed securities ("**RMBS**") and covered bonds. The sustained low interest rate environment in recent years has resulted in CYBG Group's cost of funding remaining relatively low by historical standards, by reducing the interest payable on customer deposits. However, it has also reduced incentives for consumers to save and, in doing so, reduced the amount of funding from customer deposits that could be provided to banks, as consumers are incentivised to seek alternative investments offering returns higher than those offered by PCAs, BCAs or savings accounts. The sustained low interest rate environment in recent years has also reduced incentives for consumers to transfer balances to savings accounts. If and when interest rates increase, customers may increasingly transfer PCA and BCA balances, as well as other deposit balances, to higher rate products, which could result in increased interest expense and/or reduced deposit volumes for CYBG Group.

CYBG Group raises funding from a number of wholesale sources, including secured funding through RMBS and covered bond programmes as well as shorter-term wholesale funding. Any significant increase in interest rates could have a material adverse impact on the availability and interest cost of such funding.

Secondly, interest rates impact CYBG Group's impairment levels, particularly because they affect customer affordability of mortgages, as well as the ability of individuals and SMEs to borrow and service loans. An increase in interest rates, without a comparable increase in customer income or SME revenues and profits, could, for example, lead to an increase in default rates among customers who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for CYBG Group. A high interest rate environment may also reduce demand for mortgages and other loans generally, as individuals and SME customers may be less likely or less able to borrow when interest rates are high. A high interest rate environment also may result in other forms of financing, such as equity capital for SMEs, becoming more attractive, thereby reducing CYBG Group's lending and related income. In a low interest rate environment, there is a risk that borrowers at early levels of financial distress will not be identified in a timely manner, as they may continue to be able to service their loans, which may contribute to higher impairment levels in the future.

Thirdly, interest rates affect CYBG Group's net interest income and margins. The Bank of England base rate has remained at 0.5 per cent. since March 2009, having fallen from 5.5 per cent. in December 2007. In the 30 years preceding December 2007, the lowest level of the base rate was 3.5 per cent. This low interest rate environment has put pressure on net interest income and margins throughout the UK banking industry, including at CYBG Group.

During the period under review, the sustained period of low interest rates has resulted in lower returns on low interest bearing and non-interest bearing current accounts and capital, reducing CYBG Group's net interest income and net interest margin. CYBG Group's business and financial performance and net interest income and margin may continue to be adversely affected by the continued low interest rate environment.

In addition, CYBG Group has a significant book of tracker mortgages, comprising 12.8 per cent. of its mortgage portfolio as at 30 September 2015, that were advanced in line with the mortgage market at the time, which bear interest at the Bank of England base rate plus a margin. The average yield on these tracker mortgages was approximately 1.42 per cent. for the year ended 30 September 2015. In the current interest rate environment, this amount is lower than CYBG Group's funding cost for these tracker mortgages and so the portfolio has a negative interest margin. This negative interest margin will continue until these mortgages run-off or CYBG Group's funding cost falls relative to the interest rate charged.

In the event of sudden, large or frequent increases in interest rates, CYBG Group may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short term, which may negatively affect its net interest income and net interest margin.

As at 30 September 2015, approximately 29.6 per cent. of CYBG Group's customer deposits were variable rate savings accounts, which together with other floating rate liabilities exposes CYBG Group to the risk of increased costs if interest rates increase. In an increasing interest rate environment, CYBG Group may also be more exposed to re-pricing of its liabilities than competitors with a lower proportion of variable rate deposits or other liabilities.

As at 30 September 2015, CYBG Group's value at risk associated with interest rate risk (calculated in the manner set forth in Note 39 of the Historical Financial Information) was £27 million.

If CYBG Group is unable to manage its exposure to interest rate volatility, whether through hedging, product pricing, monitoring of borrower credit quality or other means, such volatility could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

5. ***CYBG Group is exposed to risks relating to higher levels of unemployment, principally in the UK.***

As a UK bank focused on retail and SME customers, CYBG Group's business performance is impacted by the economic health and employment status of its customers, a principal driver of which is overall employment levels, principally in the UK. Higher levels of unemployment have historically resulted, for example, in a decrease in new mortgage borrowing, lower deposit levels and reduced or deferred levels of consumer spending, which adversely impact fees and commissions received on credit and debit card transactions as well as demand for unsecured lending. Higher unemployment rates and the resulting decrease in aggregate consumer income can also have a negative impact on CYBG Group's results through an increase in customer loan arrears, forbearance, impairment provisions and defaults. Consequently, sustained high levels of unemployment, particularly in geographic areas where CYBG Group's mortgage portfolio is concentrated, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

6. ***CYBG Group's business and financial performance could be adversely affected by macro-economic conditions in the Eurozone and globally.***

Deterioration in economic conditions in the Eurozone, including macro-economic or financial market instability, poses a risk to CYBG Group's business, although CYBG Group has limited direct financial exposure to customers, assets and counterparties in the Eurozone. For example, strengthening of the pound sterling to Euro exchange rate may negatively impact CYBG Group's customers' exports of agricultural and manufacturing outputs to the Eurozone. In recent years, the UK financial markets have been negatively impacted at times by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe. These impacts were felt in the UK economy generally and by UK financial institutions in particular, and placed strains on funding markets at times when many financial institutions had material ongoing funding needs. While CYBG Group is not currently heavily reliant on the Eurozone markets for funding, market volatility has an adverse impact on consumer confidence, spending and demand for credit, which could have an adverse impact on CYBG Group's business, financial condition, results of operations and prospects.

Further, CYBG Group's business and financial performance would likely be materially adversely affected by a break-up of the countries using the Euro currency. A number of countries in Europe, such as Greece, Italy, Ireland, Portugal and Spain, have been affected by the difficult financial and economic conditions apparent since 2008 and are struggling with large sovereign debts and/or public budget deficits. The possibility remains that the Euro could be abandoned as a currency by one or more countries that have already adopted its use, in particular Greece, which experienced difficulties in restructuring its debt and accessing European bailout funding. In an extreme scenario, a default by a single country could lead to the abandonment of the Euro and the dissolution of the European Monetary Union ("**EMU**"). This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the UK and European economy of the dissolution of the EMU, the exit of one or more European Union member states from the EMU and/or the redenomination of financial instruments from Euro to a different currency, are impossible to predict fully but would likely result in significant market dislocation, and heightened counterparty risk and adversely affect the ability to manage market risk. CYBG Group anticipates that such an event would be likely to have an adverse impact on the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting CYBG Group's net interest income and net interest margin.

Changes in global economic conditions or circumstances may have secondary consequences that adversely impact CYBG Group's results of operations and financial condition. For example, falling oil prices caused by excess supply may impact the demand for credit from businesses in, or associated with, the oil industry and employment rates in areas where the industry is based, which in turn may reduce the demand for credit experienced by CYBG Group. The recent slowdown of Chinese economic growth, decline and volatility of the Shanghai Stock Exchange indices and the depreciation of the renminbi have contributed to a worsening economic outlook for the world's second largest economy which could have a significant effect on global economic conditions, including on commodity prices. A decline in global commodity prices could place added pressure on the general UK economy including sectors of the UK economy such as agriculture and oil & gas. Other examples of such changes include, but are not limited to, changes in economic growth rates in countries that are major UK trading partners, changes in interest rates and inflation rates in the Eurozone which could impact exchange rates for customers importing inputs from or exporting outputs into the Eurozone, lower labour costs in other global markets impacting the ability of UK businesses to compete on price, and changes in demand for credit, the cost of finance for businesses and commodity and asset prices (i.e. bonds, equity securities, oil, agricultural outputs and property prices).

Central banks around the world have made efforts to increase liquidity in the financial markets, by taking measures such as increasing the amounts they lend directly to financial institutions and lowering interest rates. However, it is not certain how long or on what terms these central bank schemes will continue. There is some market expectation that certain central banks, including the Bank of England, may tighten their monetary policy to increase interest rates back to levels closer to historical norms and reduce or eliminate quantitative easing, with the US Federal Reserve Board of Governors voting to raise the target range for the federal funds rate to 0.25 to 0.5 per cent. at their meeting in December 2015. A prolonged period of low interest rates carries the risk that market participants may take on or have taken on more risk than they expected in a 'search for yield', leaving them exposed to an earlier or more rapid than expected tightening in monetary policy. An earlier than expected increase in interest rates or a divergence in the timing of tightening of monetary policy by the US Federal Reserve Board of Governors and other central banks, including the Bank of England, or the reduction in and/or unwinding of the US Federal Reserve Board of Governors' and/or the Bank of England's quantitative easing programmes may also result in volatility in capital flows, adverse fluctuations in currency markets, a suppression of demand and a reduction in the availability of credit, which may limit economic recovery in the UK or elsewhere.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including CYBG Group. Market volatility during the global financial crisis led to, and may in the future lead to, the following (amongst other factors):

(a) increased cost of funding and/or reduced availability of funding;

(b) deterioration in the value and liquidity of assets (including collateral);

(c) inability to price or difficulty in pricing certain assets;

(d) higher provisions for bad and doubtful debts;

(e) an increased likelihood of customer and counterparty default and credit losses;

(f) mark to market losses in the value of assets and liabilities;

(g) economic exposures from hedging activities;

(h) increased cost of insurance and/or lack of available insurance; and

(i) lower growth, business revenues and earnings.

The financial performance and position of CYBG Group has been, and its future financial performance and position are likely to continue to be, affected by these factors, which could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

7. ***CYBG Group faces risks relating to a proposed referendum on the UK's continued membership in the EU.***

Following the UK general election that took place in May 2015, the UK Government has committed to hold a referendum on whether the UK will stay in the EU by the end of 2017. CYBG Group faces risks associated with the potential uncertainty during the period prior to and regarding the results of the referendum and the consequences that may flow from a vote to exit the EU. For example, because a significant proportion of the regulatory regime in the UK and forthcoming regulatory reform is derived from EU directives and regulations, the referendum could materially change the regulatory regime that would be applicable to CYBG Group's operations in the future. This could increase compliance and operating costs for CYBG Group and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Uncertainty around the outcome of the referendum could lead to adverse effects for the UK economy which could also adversely impact CYBG Group, for example:

- increased funding costs for CYBG Group and UK banks more generally, due to a lack of clarity over the UK's status within the European single market;
- a reduction of investment and delays in capital expenditure decisions by businesses that would result from a decision to leave the EU and a consequential reduction in demand for business lending; and
- the risk that international businesses choose to invest outside the UK in order to avoid political uncertainty.

A referendum decision to exit the EU may also increase the possibility of another referendum on Scottish independence from the UK, creating further uncertainty on Scotland's position within the UK, which may create additional costs for CYBG Group (including changes to pension arrangements, costs of regulatory compliance and, if deemed necessary, a change of headquarters to England) and adversely affect its business, results of operations, financial condition and prospects.

While CYBG Group is monitoring and assessing the potential impacts on its business of a referendum vote in favour of an EU exit, the situation remains uncertain.

RISKS RELATING TO THE OPERATION OF CYBG GROUP'S BUSINESS

8. ***CYBG Group faces risks associated with compliance with a wide range of laws and regulations.***

CYBG Group'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. For example, UK financial institutions, including CYBG Group, are subject to a high level of scrutiny by regulatory bodies (including the Bank of England, the FCA, the PRA, the Payment Systems Regulator (the "**PSR**") and the UK Competition and Markets Authority (the "**CMA**")) regarding the treatment of customers and also by the press and politicians. Financial institutions, including CYBG Group, and their employees, have also been subject to customer complaints and regulatory investigation and/or enforcement action regarding mis-selling of financial products and the mishandling of related complaints, which has resulted in disciplinary action and/or requirements to amend sales processes, withdraw products and/or provide restitution to affected customers, all of which result in costs and may require provisions in addition to those already taken. In particular, and in common with the wider UK retail and SME banking sector, CYBG Group continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance ("**PPI**"), the historic sales of certain interest rate hedging products ("**IRHP**") which includes standalone interest rate hedging products ("**Standalone IRHP**") and certain tailored business loans, with additional features such as interest rate protection functionality, structured collars, collars or caps ("**Voluntary Scope TBLs**") and fixed rate tailored business loans ("**FRTBLs**") to SMEs and other conduct-related matters. On 14 April 2015, the FCA levied CYBG Group with a fine of approximately £21 million for serious failings in its PPI complaint handling processes between May 2011 and July 2013. CYBG Group agreed to settle at an early stage of the FCA's investigation and therefore qualified for a 30 per cent. discount and, were it not for such discount, the fine levied would have been approximately £29.5 million. See "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" below for further information.

Regulatory enforcement actions pose a number of risks to CYBG Group, 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, CYBG Group and/or its employees may be subject to 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. For further details of risks arising from regulations applicable to CYBG Group, see "*Regulatory Risks*" below. All of these issues could have a negative effect on CYBG Group's reputation and the confidence of its customers in CYBG Group, as well as taking a significant amount of management time and resources away from the execution of CYBG Group's strategy and the operation of its business.

CYBG Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability, even when the Directors believe that it has no 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 prevail would be disproportionate to the costs of settlement. Furthermore, CYBG Group may, for similar reasons, reimburse counterparties for their losses even in situations where there are no litigation proceedings and CYBG Group does not believe that it is legally compelled to do so. Failure to manage these risks adequately could have a material adverse affect on CYBG Group's reputation, business, results of operations, financial condition and prospects.

9. ***CYBG Group faces risks associated with the implementation of its strategy.***

CYBG Group faces a variety of risks associated with the implementation of its strategy. A failure to achieve its strategic objectives including increasing its retail mortgage, SME lending and unsecured personal lending portfolios, increasing its mortgage and SME lending market shares, growing its retail and SME customer bases, further developing and optimising its omni-channel distribution platform and delivering enhanced returns to shareholders, as described in more detail in Part 2: "*Information on CYBG Group*", would have an adverse impact on CYBG Group's ability to attract and retain customers, its reputation and its business, results of operations, financial condition and prospects, which in turn could have an adverse impact on the price of the Shares.

Risks associated with CYBG Group's strategy to increase its loan portfolio and deposit base

In seeking to grow its mortgage, SME lending and unsecured personal lending books, CYBG Group is susceptible to the risk of reduced asset quality and increased impairment losses in its customer loan portfolio due to it broadening its target market or loosening its underwriting or lending criteria in order to attract additional customers, or applying a broader interpretation of existing underwriting or lending criteria. CYBG Group is also subject to the risk of increased competition, including competition based on price, in seeking to grow its customer loan portfolio, which could adversely affect CYBG Group's net interest margin and returns. Furthermore, banks 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 are either poorly matched with, or superfluous to, customer needs. If CYBG Group fails to manage these risks adequately, it could result in legal or regulatory action against CYBG Group, reputational damage to its brands and adverse impacts on the implementation of its strategy.

CYBG Group's ability to maintain and grow its customer loan portfolio depends on continued access to customer deposits and other sources of funding in quantities sufficient to finance and refinance the portfolio at costs that CYBG Group considers to be acceptable. A key component of CYBG Group's strategy is to grow its retail and SME deposits, and in particular to increase its market share of PCA and BCA flows, in order to fund the growth of its business and maintain the LDR at its targeted level. Access to customer deposits is subject to competition and market factors that are outside of CYBG Group's control, and accordingly CYBG Group may need to increase the interest rates it offers to customers in order to attract deposits, which may result in increased interest expense, reduced net interest income and reduced net interest margin. No assurance can be given that CYBG Group will be able to obtain and maintain access to sufficient customer deposits, or other sources of funding, to finance CYBG Group's planned growth.

Risks associated with CYBG Group's digital strategy

A core part of CYBG Group's strategy is strengthening its digital platform to support the delivery of a consistent and seamless experience for customers through CYBG Group's omni-channel distribution platform, creating new digital propositions to support new customer acquisition and customer retention, and simplifying its operating platform to improve customer experience and increase efficiency. CYBG Group has identified a number of investments needed to achieve a competitive position in an increasingly competitive digital banking environment and is expecting to make significant investments over the medium term in new products and initiatives. If CYBG Group fails to successfully execute its digital strategy, fails to invest sufficiently, fails to invest to the same extent as its competitors, or fails to invest in the right technologies, CYBG Group's business, results of operations, financial condition and prospects could be materially adversely affected. CYBG Group also may be required to make further expenditure or investments (such as marketing, customer incentives or pricing changes) in order to achieve CYBG Group's strategic targets. Further innovation by competitors, for example through "digital disruption" of existing product or service markets causing changes in consumer demands and behaviours, or other changes in consumer behaviour, may require CYBG Group to adapt its plans and/or revise its strategy, causing delays in its implementation or resulting in additional costs. Any failure to successfully implement its digital strategy, delay in such implementation or failure to keep pace with further changes in the industry could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

Execution and other risks associated with CYBG Group's strategy

CYBG Group's ability to implement its strategy successfully is subject to execution risks, including those relating to the management of its cost base and limitations in its management and operational capacity. The implementation of CYBG Group's strategy will require management to make complex judgments, including anticipating customer needs and customer behaviour across a wide range of retail and SME banking products, and anticipating competitor activity, legal and regulatory changes and the likely direction of a number of macro-economic factors regarding the UK economy and the retail and SME banking sector. In addition, CYBG Group may fail to achieve management's guidance, targets or expectations in respect of CYBG Group's net interest margin, operating and administrative expenses, standalone costs as a listed entity, return on tangible equity, dividends, growth in mortgage lending, total retail lending and/or SME lending, growth in mortgage market share, SME lending market share, PCA market share and/or BCA market share, or in the development of CYBG Group's asset quality, cost-to-income, jaws, CET1 capital and/or LDR, or other financial or key performance indicators. The risk that some or all of these targets and expectations may fail to be achieved may be a consequence of internal factors such as a failure to effectively manage its cost base, and may also be exacerbated or caused by a number of external factors, including a downturn in the UK, European or global economy, increased competition in the UK retail and SME banking sector and/or significant or unexpected changes in the regulation of the financial services sector in the UK or Europe. A failure to successfully manage the implementation of its strategy for the foregoing, or any other, reason, could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

10. ***The reputation of CYBG Group and its brands may be damaged by the actions, behaviour or performance of numerous persons.***

CYBG Group benefits from its "Clydesdale Bank" and "Yorkshire Bank" brands and any event or circumstance that causes damage to CYBG Group or its brands could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

CYBG Group's brands may be damaged by the actions, behaviour or performance of CYBG Group, its employees, affiliates, suppliers, counterparties, regulators or customers, or the financial services industry generally. A risk event, such as compliance breaches or a significant operational or technology failure, may adversely affect the perceptions of CYBG Group held by the public, Shareholders, investors, customers, employees, regulators or rating agencies. The risk event itself may expose CYBG Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts on CYBG Group's share price. Reputational damage to CYBG Group or its brands may adversely impact CYBG Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may also result in a higher risk premium being applied to CYBG Group, which could adversely impact the cost of funding its operations and its financial condition.

CYBG Group's trademarks are critical to the ability to protect the "Clydesdale Bank" and "Yorkshire Bank" brands. Third parties may seek to challenge the validity or ownership of CYBG Group's trademarks or other intellectual property rights in its brands. CYBG Group's trademarks may be found to be invalid (for example for non-use) or otherwise unenforceable against third parties. There is also a risk that third parties may infringe CYBG Group's intellectual property rights. A failure to protect and enforce CYBG Group's intellectual property rights in its brands against third parties could adversely impact CYBG Group's competitive position, expose it to reputational risk or other harm to its business and adversely affect its relationships with its customers.

CYBG Group may also become subject to claims of infringement of third-party intellectual property rights. Such claims could lead to litigation which may require significant management time, cost and other resources. If a third-party claim is successful, it could result in CYBG Group having to cease the use of certain intellectual property rights, pay damages or enter into licensing arrangements. These types of claims could have a material adverse effect on CYBG Group's reputation, business, results of operations, financial condition and prospects.

Any damage to the reputation of CYBG Group or its "Clydesdale Bank" or "Yorkshire Bank" brands may adversely affect CYBG Group's ability to execute its strategy. An inability to manage risks to its reputation or brands could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

11. ***CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding.***

Funding risk is the risk that CYBG Group is unable to raise short and/or long-term funding in the retail and wholesale markets to support its ongoing operations, strategic plans and objectives. CYBG Group accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets or a reduction in investor appetite for holding CYBG Group's securities or other credit exposures to CYBG Group may adversely affect CYBG Group's ability to access funds or require CYBG Group to access funds at a higher cost, or on unfavourable terms, or result in obtaining funding that does not efficiently match the maturity profile of its assets.

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer liabilities in the form of current accounts and savings accounts, funding obtained through RMBS securitisation programmes and covered bond programme, as well as short-term wholesale funding, with securitised and covered bond funding being dependant on the availability of a sufficient supply of mortgages of adequate quality for the purposes of supporting further issuance. As part of its funding plan, CYBG Group intends to continue to access the secured wholesale funding markets. If during periods of acute economic or market disruption the wholesale funding markets were to be fully or partially closed, it is likely that wholesale funding would prove more difficult to obtain on commercial terms. Under such circumstances, CYBG Group may incur additional costs and may be unable to successfully deliver its growth strategy. Profound curtailments of central bank liquidity to the financial markets in connection with other market stresses, though unlikely, might have a material adverse effect on CYBG Group's business, financial position and results of operations, depending on CYBG Group's funding position at that time.

Any downgrade in the credit rating of the Company, Clydesdale Bank, CYBG Group's RMBS issuance vehicles or their respective securities, or a downgrade in the sovereign rating of the UK, may increase CYBG Group's borrowing costs or limit its access to the capital markets and, consequently, have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects. See "*A downgrade in the credit rating of the Company or Clydesdale Bank, the UK banking sector or the UK Government may have an adverse effect on CYBG Group's business, results of operations, financial condition and prospects*" below.

CYBG Group aims to maintain a prudent LDR, which means that the majority of its lending is funded by retail and business deposits. As at 30 September 2015, CYBG Group's LDR ratio (defined as customer loans as a percentage of customer deposits) was 109 per cent. Medium-term growth in CYBG Group's lending activities will depend, in part, on the availability of retail and business deposit funding on acceptable terms, for which there may be increased competition and which is dependent on a variety of factors outside CYBG Group's control. These factors include general macro-economic conditions and market volatility, the confidence of retail and business depositors in the economy, in the financial services industry, in new market entrants and in CYBG Group, as well as the availability and extent of deposit guarantees. Availability of deposit funding may also be impacted by increased competition from other deposit takers as a result of their strategies or factors that constrain the volume of liquidity in the market, including, for example, the end of the UK Government's FLS or the impact of the UK Government's "pensioner bonds" scheme. Increases in the cost of deposit funding would impact CYBG Group's net interest margin and affect its results of operations, and a lack of availability of deposit funding could have a material adverse effect on CYBG Group's future growth.

Any loss in consumer confidence in CYBG Group could significantly increase the amount of deposit withdrawals that may occur in a short space of time. Should CYBG Group experience an unusually high and/or unforeseen level of deposit withdrawals, CYBG Group may require greater non-retail sources of other funding in the future, which it may be unable to access, which could in turn have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Any initiative to raise additional deposits through price leadership could have an adverse impact on CYBG Group's net interest income and margin through the cost of both paying higher interest rates to new customers and existing customers switching to these higher-rate products.

Liquidity risk is typically defined as the risk that a company is unable to meet its financial obligations as they fall due. For CYBG Group such obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and capital instruments as they mature, the payment of interest on borrowings and deposits and the payment of operating expenses and taxes. Any significant deterioration in CYBG Group's liquidity position may lead to an increase in the cost of CYBG Group's borrowings or constrain the volume of new lending. This may adversely impact CYBG Group's profitability, financial performance and position.

Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may compromise CYBG Group's ability to deliver its growth strategy and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

12. ***The amount and quality of CYBG Group's capital is subject to regulatory requirements and market influence.***

Capital risk is the risk that CYBG Group does not have sufficient capital and reserves of sufficient quality to meet prudential regulatory requirements, achieve its strategic plans and objectives, cover the risks to which it is exposed or protect against unexpected losses. CYBG Group is required to maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations.

The Company plans to satisfy incremental increases in capital required to support balance sheet growth by way of retained earnings whereas CYBG Group plans to access the wholesale markets to refinance various existing capital instruments from time to time. If during periods of acute economic or market disruption the wholesale markets were to be fully or partially closed, it is likely that such refinancing would prove more difficult to obtain on commercially acceptable terms. Under such circumstances, CYBG Group may be required to take other appropriate management actions and incur additional costs.

An actual or perceived shortage of capital could have a material adverse effect on CYBG Group's business, which could, in turn, affect the Company's capacity to pay future dividends or implement its business strategy, impacting future growth potential. If, in response to any such shortage, the Company raises additional capital through the issuance of share capital or capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

The Company may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section. CYBG Group may also experience an increased demand for capital as a result of regulatory requirements. For further information, see "*CYBG Group is subject to substantial and changing prudential regulation*" below. Additional capital may also be required to redress issues from historical sales of financial products. Further information is provided in "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" below.

CYBG Group expects to be impacted by the implementation of IFRS 9 "Financial Instruments" which is currently expected in 2018. IFRS 9 requires CYBG Group to move from an incurred loss model to an expected loss model requiring CYBG Group to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. IFRS 9 may lead to a one-off increase in impairment allowances for certain financial assets in CYBG Group's balance sheet at the time of adoption, and, depending on its interpretation by the relevant regulators, could lead to a negative impact on CYBG Group's regulatory capital position. In addition, following adoption, impairment under IFRS 9 is expected to increase the complexity of CYBG Group's impairment modelling and result in earlier recognition of credit losses than under IAS 39 which is likely to lead to an increase in total provisions.

CYBG Group may also be impacted by certain revisions for calculating regulatory capital, including revisions to the regulatory capital treatment of interest rate risk in the banking book and the standardised approaches for credit risk and operational risk, as described further under "*CYBG Group is subject to substantial and changing prudential regulation*" on which the Basel Committee on Banking Supervision (the "**Basel Committee**") is consulting.

CYBG Group sets its internal target amount of capital by taking account of its own assessment of the risk profile of the business, market expectations and regulatory requirements. If market expectations as to capital levels increase, driven by, for example, the capital levels or targets amongst peer banks or if new regulatory requirements are introduced, then CYBG Group may be required to increase its capital ratios. If it is unable to do so, its business, financial condition, results of operations and prospects may be materially adversely affected.

13. ***CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses.***

CYBG Group faces both financial and reputational risks as a result of legal and regulatory proceedings, and complaints made to it directly or to the Financial Ombudsman Service ("**FOS**") or other relevant regulatory bodies, both against CYBG Group and against members of the UK banking industry more generally.

Capped Indemnity

As part of the Demerger, NAB and the Company have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide the Company with an indemnity (the "**Capped Indemnity**") in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". Claims may be made by the Company under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter.

At the Demerger Date, the maximum amount of cover provided to the Company by the Capped Indemnity (the "**Capped Indemnity Amount**") is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will be responsible for £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement (described below), with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015.

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities (the amount of such provisions, "**Pre-Demerger Provision Amounts**") (being £986 million as at 30 September 2015) providing total cover for conduct costs of £2.1 billion (without taking account of the Loss Sharing Arrangement (defined below)).

In order to align the interests of NAB and the Company with respect to any such claim, the Company will be responsible for a fixed percentage, expected to be 9.7 per cent., of the relevant conduct liabilities forming part of the relevant provision or increase (the "**Loss Share**" and such arrangement being the "**Loss Sharing Arrangement**"), with NAB being responsible for the remainder. The Company's Loss Share reflects the proportion of any liability in respect of a Relevant Conduct Matter that £120 million bears to the Capped Indemnity Amount plus £120 million as at the Demerger Date.

Any amount paid to the Company pursuant to the Capped Indemnity will be deposited in a separately designated account at Clydesdale Bank in the name of the Company.

Although the Capped Indemnity provides significant economic protection with respect to the historical conduct issues discussed below, it is subject to the following principal risks:

- Claims relating to Relevant Conduct Matters may exceed the Capped Indemnity Amount.

- The Capped Indemnity is subject to the Loss Sharing Arrangement and therefore the Company is only able to claim for the proportion of the relevant provision or increase for conduct costs that falls within the scope of the Capped Indemnity after deduction of the Loss Share and the Company will bear the costs of such Loss Share.

- Claims relating to historical conduct matters, other than those in connection with existing known conduct issues relating to: (a) PPI; (b) IRHP which includes Standalone IRHP and Voluntary Scope TBLs; and (c) FRTBLs, must satisfy (or be expected by CYBG Group in good faith to satisfy) the following materiality thresholds (when aggregated with claims of a similar nature) in order to be covered under the Capped Indemnity:

  - for claims relating to an industry wide customer redress programme entered into as part of a settlement with a regulator, claims must exceed £2.5 million, in aggregate, and

  - for all other claims, claims must exceed £5 million, in aggregate, and must also affect more than 50 customers.

  It is possible, therefore, that the Company is subject to a number of claims relating to future conduct matters which do not meet the required thresholds under the Capped Indemnity but which, in aggregate, amount to a material capital exposure for the Company.

  Further, if a matter for which payment has been made by NAB under the Capped Indemnity was expected to satisfy the relevant materiality thresholds but does not in fact satisfy the thresholds at the time the relevant cost is incurred, the Company will not be entitled to make a withdrawal of the amounts paid by NAB under the Capped Indemnity (which will be held in a separately designated account in the name of a member of CYBG Group (a "**Designated Account**")) in respect of such matter unless and until it does satisfy such thresholds.

- Whilst the Capped Indemnity covers claims resulting from changes in the generally accepted applications or interpretation of laws or regulations, it does not cover claims arising from the retrospective application of new laws or regulations. Were any new laws or regulations to be applied retrospectively, CYBG Group would bear the costs that may arise, which may have a material effect on CYBG Group's business, reputation, financial condition, results of operations and prospects.

- In the event that a duly appointed expert determines that there is a continuing material non-compliance by the Company with its obligations under the Conduct Indemnity Deed, being principally to cooperate in relation to the assessment by the PRA of CYBG Group's potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims under the Capped Indemnity and withdrawals from the Designated Account(s) in respect of payments that have been made to settle customer claims, NAB may suspend or withhold certain payments to the Company and the Company will be restricted from withdrawing certain amounts from the Designated Account(s). In that event, the Company may either not receive, or experience a delay in receiving, payments under the Capped Indemnity or may not withdraw or experience a delay in withdrawing amounts from the Designated Account(s), in each case which relate to the Relevant Conduct Matter in relation to which the Company is in material non-compliance.

- The Capped Indemnity Amount as reduced or utilised from time to time in accordance with the Conduct Indemnity Deed (the "**Unutilised Indemnity Amount**") may be permanently reduced following any reassessment by the PRA (in its sole discretion) that the remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount from time to time plus any unutilised Pre-Demerger Provision Amounts and the Company's outstanding liability under the Loss Sharing Arrangement (being any unused portion of the Company's £120 million share under such arrangement). Such a reduction of the Unutilised Indemnity Amount would be permanent, and should CYBG Group's exposure to Relevant Conduct Matters increase following such a reduction, that increase will not be reflected in any increase in the Capped Indemnity.

The above factors may result in the Company being required to fund the costs of claims relating to certain historical conduct matters (certain of which are described in detail below) from its own capital resources which may not be sufficient to settle or discharge some or all of any such claims. Further, while the Capped Indemnity provides CYBG Group with economic protection relating to certain conduct matters, it does not cover all possible impacts of historic conduct issues and CYBG Group may be materially adversely impacted by other risks such as reputational damage to its brand names.

In certain circumstances contemplated by the Conduct Indemnity Deed, the Company may be required to repay to NAB certain amounts received by it under the Capped Indemnity. The Company will need to ensure that there are funds available at the Company to make such repayments to NAB (or that another member of CYBG Group is able to make such a repayment on behalf of the Company) and will need to use all reasonable endeavours to ensure that the Company itself is in a position to make such a repayment. There is no certainty that the Company will have such funds available nor that it will be in a position to make such a repayment, for example, because members of CYBG Group are unable to upstream sufficient funds to the Company, and if NAB seeks to enforce its right to such a repayment, any failure by the Company to meet its repayment obligations could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

It is not expected that payments to the Company under the Capped Indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has agreed to compensate the Company for any actual tax incurred that would not have been incurred but for receipt of amounts by the Company under the Capped Indemnity or by members of CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments. In certain circumstances, CYBG Group may be liable to a tax charge in respect of payments to customers for Relevant Conduct Matters and NAB has also agreed, subject to certain limitations, to compensate the Company for those tax costs net of deductible expenses if they arise in respect of NAB's share of liability under the Loss Sharing Arrangement for Relevant Conduct Matters (together with the matters referred to in the preceding sentence, the "**Tax Indemnity Provisions**"). It is not expected that the Tax Indemnity Provisions will give rise to any net payment to the Company. It is not possible to determine the amount of tax that may be payable should any amounts paid to the Company under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group in consequence of receipt of such payments) be subject to tax, as this will depend on tax legislation at the time the relevant payments (or subscriptions) become subject to tax. As it is not expected that payments under the Capped Indemnity will be taxable in the hands of the Company and the amount of any tax, if it became payable, is uncertain, NAB's obligations under the Tax Indemnity Provisions will not be collateralised by any deposit maintained with the Bank of England (as they will be in respect of its obligations under the Capped Indemnity). Therefore, if tax were to be payable, the Company would be reliant on its contractual rights under the Tax Indemnity Provisions in order to obtain compensation from NAB. If the Company were to be unsuccessful in recovering such amounts from NAB, this could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

For a summary of the Conduct Indemnity Deed see: Part 2: "*Information on CYBG Group – Conduct*".

Conduct-Related Risks

PPI redress, which is primarily redress in respect of mis-sold payment protection insurance, is one of the most significant conduct-related factors that has adversely affected profitability for UK retail banks, including CYBG Group, in recent years. In 2013, following an initial review of sample PPI complaint files by the FSA, CYBG Group became subject to an FCA s166 review into complaints handling policies and procedures and an FCA enforcement process. On 14 April 2015, the FCA fined Clydesdale Bank £21 million in relation to failures in its PPI complaints handling processes between May 2011 and July 2013.

In August 2014, CYBG Group introduced revised PPI complaint handling policies and procedures to address issues highlighted by the FCA s166 review. As a result, all PPI complaints processed prior to this date are to be reviewed by the Company, and remediated where appropriate, to ensure customer outcomes were not restricted by the previous issues in CYBG Group's policies and procedures. In addition, in August 2015, CYBG Group concluded a past business review of PPI sales from January 2005, which comprised an examination of sales practices and other evidence to provide an assessment as to whether sales to customers were suitable in light of the customer's circumstances (the "**Past Business Review**"). As a result of this review, CYBG Group will be undertaking a proactive customer engagement programme which involves contacting customers identified as having experienced actual or potential detriment under its historical PPI sales practices.

As at 30 September 2015, CYBG Group had recorded total provisions of £1,196 million for PPI matters, of which £774 million was unutilised (including amounts set aside as costs to do).

The key measures for calculating amounts set aside to settle PPI claims used by CYBG Group are: (i) the volume of customer initiated complaints; (ii) expected customer response rate to the proactive engagement programme; (iii) the rate of complaints upheld for which redress payments are provided; (iv) the average amount of each redress payment; and (v) the costs of administration of the claims and redress handling process. CYBG Group's estimates are based on a number of assumptions derived from a combination of past experience, historical data analysis, estimated future outcome, industry comparison and the exercise of judgement by CYBG Group. Consequently, provision levels remain under review in response to changing circumstances and the position remains fundamentally uncertain. There is a risk that the number of future complaints received by CYBG Group could materially exceed its assumptions on volume and the actual future uphold rates and average redress could materially exceed the levels anticipated by CYBG Group. There is also a risk that the resourcing for the administration of the claims and redress handling process is inadequate to meet regulatory timeframes and additional claims management costs may be incurred in attempting to meet such timeframes. The increasing proportion of claims made where there is no evidence of a PPI sale presents a further challenge in calculating provision amounts. As such there is a risk that existing provisions for PPI customer redress may not cover all potential losses and further provisions will need to be made which, if in excess of the amount of the Capped Indemnity, could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

In November 2014, the Supreme Court ruled in *Plevin v Paragon Finance Limited [2014] UKSC 61* that failure to disclose to a customer a "high" commission payment on a single premium PPI policy sold with a consumer credit agreement created an unfair relationship between the lender and the borrower under s140 of the Consumer Credit Act 1974. It did not define a tipping point above which commission was deemed "high". The disclosure of commission was not a requirement of the FSA's (now FCA's) ICOBS rules for the sale of general insurance (including PPI). The industry, the FCA and the FOS are considering the broader impacts of this decision but there is no current definitive view. Permission to appeal the redress outcome in the *Plevin* case was refused by the Court of Appeal in July 2015 and by the President of the Family Division in November 2015.

On 2 October 2015, the FCA announced a decision to consult on the introduction of a deadline by which consumers would need to make their PPI complaints or lose their right to have them assessed. The deadline would fall two years from the date the proposed rules come into force, which is not anticipated to be before spring 2016. The FCA's announcement also includes a decision to consult on rules and guidance about how firms should handle PPI complaints fairly in light of the *Plevin* judgement concerning a claim under the Consumer Credit Act 1974 about the non-disclosure by a lender of the level of commission on a PPI contract. The proposed deadline would also apply to the handling of these complaints. It is anticipated that if the proposed introduction of a deadline takes place, it could encourage eligible consumers to bring their claims early and result in a greater number of potential complaints presented to CYBG Group than would have otherwise been expected during such period in the absence of a deadline for having complaints assessed, which could result in increased remediation and administrative costs in relation to such claims. On 26 November 2015 the consultation was published ("*CP15/39: Rules and guidance on payment protection complaints*"). The consultation is open until 26 February 2016, and thereafter the FCA will consider the responses received before making final rules. The deadline proposed by the FCA and the outcome of its consultation on the impact of the *Plevin* case on the handling of PPI complaints and remediation could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

Regulatory review of PPI redress is an on-going matter for CYBG Group and across the UK retail banking industry. Any further fines or enforcement actions, whether for PPI or other conduct issues including those detailed below, could be material in amount and, notwithstanding the terms of the Capped Indemnity (described above), have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has raised provisions for other conduct-related matters, including the sale of IRHP (which includes Standalone IRHP and Voluntary Scope TBLs) and certain FRTBLs.

In June 2012, the FSA announced that it had found serious failings in the sale of certain interest rate hedging products to some small and medium sized businesses. In July 2012, Clydesdale Bank (as well as several other UK banks) agreed to enter into a voluntary regulated redress exercise in relation to their sales of Standalone IRHP.

In addition to the regulated review of Standalone IRHP, Clydesdale Bank is voluntarily reviewing past sales of the Voluntary Scope TBLs. Clydesdale Bank is also engaged in a complaints led review of FRTBLs, which are not within the scope of the regulated Standalone IRHP review and the Voluntary Scope TBLs review. In February 2015, the FCA announced that the Standalone IRHP review would be closing on 31 March 2015 to new entrants. By 31 October 2015, all redress offers had been delivered to all customers to be offered redress pursuant to the Standalone IRHP review. The review of Voluntary Scope TBLs closed on the same date. The UK Treasury Select Committee (the "**Select Committee**"), in its report on conduct and competition in SME lending published in March 2015, noted some concerns regarding the industry wide FCA review of IRHP sales and the scope of CYBG Group's Voluntary Scope TBLs redress exercise. The Select Committee has made specific critical observations in respect of Clydesdale Bank, including that the Select Committee could not be confident that Clydesdale Bank's internal review of unregulated products would deliver outcomes equivalent to the FCA regulated review upon which it was intended to be based. While Clydesdale Bank is not required to respond to the Select Committee's report, it has confirmed to the UK Government that its review of FRTBLs will be subject to independent reviews to provide assurance that the outcomes from this review are consistent with those in respect of the Standalone IRHP review and consistent with the outcomes from FOS when considering similar complaints. On 13 October 2015, it was reported that in correspondence with the Select Committee, the FCA stated that, noting that it was confident that most people had received a fair outcome, it recognised the potential merit in conducting a review of the effectiveness of its scheme and that it was willing to investigate whether there had been systemic failures in how redress was given to small and medium-sized companies that had been mis-sold interest rate hedging products. The full impact and consequences of the Select Committee report remain uncertain. There is a risk that if the FCA or another regulator were to amend the scope of the industry wide redress process and/or institute a different redress regime or additional redress measures, notwithstanding the terms of the Capped Indemnity (described above), such events could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

As at 30 September 2015, CYBG Group had raised total provisions of £506 million for IRHP and FRTBL matters. Estimates of future redress payments are calculated based on costs from cases to date and there is a risk that the costs incurred in connection with these cases to date are not representative of, and are lower, than the costs eventually incurred in connection with future cases and that the existing provisions for IRHP and FRTBL matters, together with amounts recoverable under the Capped Indemnity (taking into account the Loss Sharing Arrangement), may not cover all potential losses.

UK retail banks have been recently experiencing an increase in the number of complaints in relation to sale of packaged bank accounts, being bank accounts that were sold packaged alongside another product such as travel insurance or vehicle breakdown cover. In the period between 1 January 2015 and 30 June 2015 the FOS received 880 new complaint cases against CYBG Group under the banking and credit product complaint category (an increase from 398 complaint cases in the period from 1 July to 31 December 2014), which amongst other products includes packaged bank accounts. Conduct costs relating to packaged bank accounts were below the minimum threshold for cover under the Capped Indemnity as at 30 September 2015 however, they have exceeded the minimum threshold at the date of this Prospectus. There is a risk that the number of complaints in connection with the historical sales of banking and credit products, including packaged bank accounts may continue to increase which could result in redress costs and provisions, diversion of management time and effort and/or negative reputational consequences which could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

Separately, the UK financial institutions sector has also experienced increased attention in relation to the sale of investment products. CYBG Group historically provided investment advice and may be subject to future conduct risk in that respect. There is a risk that the number of complaints in connection with this advice may increase which could result in redress costs and provisions, diversion of management time and effort and/or negative reputational consequences which could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

Other conduct provisions include provisions in respect of legal proceedings and claims arising in the ordinary course of CYBG Group's business. These provisions cover a number of historic matters, including CYBG Group's contribution to the banking industry response to the scheme of arrangement of Card Protection Plan and Affinion International, both providers of card and identity protection products. No assurances can be given that CYBG Group will not incur liability and/or fines in connection with any non-compliance with legislation, further conduct related legal proceedings and claims from customers. CYBG Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability, even when the Directors believe that it has no 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 prevail would be disproportionate to the costs of settlement. Furthermore, CYBG Group may, for similar reasons, reimburse counterparties for their losses even in situations where CYBG Group does not believe that it is legally compelled to do so and, notwithstanding that such action may be covered by the terms of the Capped Indemnity (taking into account the Loss Sharing Arrangement) (described above), such litigation or regulatory proceedings could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has invested in identifying any further potential conduct issues and made significant cultural and process changes to seek to ensure that its business model and supporting practices ensure the fair treatment of customers. For further information see Part 2: "*Information on CYBG Group – Conduct*".

14. ***CYBG Group faces risks from the highly competitive environment in which it operates.***

The market for financial services in the UK faces many competitive pressures and the Directors expect these pressures to increase in response to competitor behaviour, consumer expectations, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. In combination, these forces are placing increasing pressure on CYBG Group's results of operations, margins and returns through price pressure, reductions in fees and charges, increased marketing and other related expenses, investment demands, regulatory requirements and increased capital requirements.

The four largest banks in the UK have lost less than 5 per cent. market share in UK PCAs over the last 10 years (*Source: CMA – Retail Banking Market Investigation*), and in 2015 still accounted for more than 70 per cent. of UK active PCAs. (*Source: Mintel*).

The four largest banks had a combined UK market share of active BCAs of approximately 80 per cent. in 2014, remaining relatively stable since 2010. There is, however, some variation between each of the four largest banks with some increasing and others decreasing their market shares. In addition, the four largest banks had a combined share of over 80 per cent. of the number of outstanding general purpose business loans in the UK in 2014. (*Source: CMA – Retail Banking Market Investigation*).

As the financial services markets in which CYBG Group operates are generally mature, growth by any bank typically requires winning market share from competitors.

CYBG Group faces competition from established financial services providers as well as new market entrants, including "challenger banks" with specific areas of market focus, and non-bank competitors which, in some cases, have lower cost operating models. Competition in the UK mortgage market including from challenger banks seeking scale and growth over a short period of time, may create downward price pressure on mortgage and other lending rates.

Further intervention in the UK banking industry is anticipated from regulators and authorities who are increasingly focusing on competition and market effectiveness. Low levels of switching in the UK current account market have been seen as a major barrier to competition between banks and an impediment to customers receiving a potentially better service from a new supplier. In order to address this issue, the Payments Council implemented the 7-day Current Account Switch Service ("**CASS**") in the second half of 2013. This scheme is designed to ensure that a change in current account provider is completed within seven days and customers are fully protected against any financial loss in the event of problems occurring during the switch. An increase in customers switching, while potentially providing an opportunity for CYBG Group, could make it more difficult to retain existing customers. If a sustained increase in marketing and incentives is required to maintain a stable customer base, CYBG Group may be faced with increased costs or a declining customer base, which may have a material adverse affect on its business, results of operations, financial condition and prospects.

In April 2014, the CMA assumed functions previously undertaken by the Competition Commission and the Office of Fair Trading. The CMA has a wide range of responsibilities aimed at improving the effective operation of markets as well as preventing anti-competitive behaviour. Following recent market studies and market investigations into PCAs and SME banking services, the CMA concluded that there were reasonable grounds for suspecting that certain market features relating to the provision of these services restricted or distorted competition. On 6 November 2014, the CMA announced that it would conduct a comprehensive review into PCA and SME banking services. See "*CYBG Group is subject to substantial and changing conduct regulations*" below for further details on this, as well as additional market reviews being conducted by the FCA.

As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by CYBG Group to introduce new products and services to keep pace with industry developments and meet customer expectations. CYBG Group is also subject to the risk of not appropriately responding to increased threats of cyber crime associated with digital expansion and the industry-wide risk of traditional banking information technology infrastructure and digital technologies becoming obsolete. For example, in response to these risks CYBG Group is currently creating new products and digital banking services to address changes in consumer behaviour and to develop a more comprehensive digital offering. CYBG Group's financial and operational performance may be materially adversely affected by an inability to keep pace with industry trends and customer expectations.

In seeking to price products competitively for the purpose of attracting and retaining new customers, CYBG Group must consider the capital required in making loans and advances. The amount of capital required is based on the risk weighting of the asset in question. The methodology to determine the amount of capital required to be held by UK banks is based on the PRA's interpretation of the Basel capital framework. There are two approaches of calculating the risk weighting attributed to a bank's assets. The approach adopted by CYBG Group is known as the "standardised approach", which requires relatively specific amounts of capital to be held for certain types of assets based on set criteria. Banks that develop their own empirical models to quantify required capital for risk and have such models approved by the PRA are permitted to use the "Internal Ratings Based" ("**IRB**") approach. The IRB approach can be either under the "foundation" or "advanced" approach, each of which provides more flexibility in assessing the risk weighting of particular types of assets. Although there are Basel Committee proposals which may, amongst other things, narrow the gap between the standardised approach and the IRB approach to calculating risk weighted assets, currently, banks that have adopted the IRB approach would have a lower capital requirement for certain products, in particular, certain types of mortgages. This makes it more difficult for CYBG Group to compete with those banks on pricing for some of these products, which could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

15. ***CYBG Group is exposed to risks relating to its relationships with mortgage intermediaries.***

In maintaining and growing its mortgage portfolio, CYBG Group relies on a number of intermediaries in the mortgage lending market, which exposes it to the risk of deterioration of the commercial, financial or operational soundness of those organisations. CYBG Group is also exposed to the risk that its relationships with one or more intermediaries may deteriorate for a variety of reasons, including competitive factors. As CYBG Group seeks to actively grow the volume of mortgages introduced by intermediaries, its exposure to those risks increases.

CYBG Group employs an "invitation only" approach to establishing new intermediary relationships, and has relationships with a network of approximately 331 intermediaries who actively submitted business to CYBG Group in the year ended 30 September 2015. In the year ended 30 September 2015, £3,658 million of CYBG Group's gross new mortgage lending was originated through intermediaries, which represented 74.1 per cent. of total gross new mortgage lending. If a major intermediary were to cease operations or switch allegiance to other lenders in the market, there could be a negative effect on CYBG Group's mortgage lending volumes. CYBG Group pays intermediaries structured fees and commissions for introducing new customers to it at rates that the Directors believe are consistent with the wider mortgage market. Were competitors to increase incentive or other payments to intermediaries with whom CYBG Group does business, CYBG Group could be forced to increase its fees and commissions to compete with those incentives or risk a reduction in the amount of new business referred which, in either case, could have an adverse impact on demand for its mortgages.

In addition, CYBG Group is exposed to many of the risks inherent in intermediaries dealing with its prospective customers. For example, CYBG Group has limited oversight of the intermediaries' interactions with prospective customers and, consequently, CYBG Group faces risks related to the conduct of the intermediaries with which it does business. If intermediaries are found to have violated applicable conduct regulations or standards in the sale of CYBG Group's mortgage products, CYBG Group's brand and/or reputation could be harmed as a result. In addition, the structure of the intermediary mortgage market is also subject to change. For example, there may be a change in customer sentiment or regulation that results in customers dealing with financial institutions directly, which would reduce the flow of business from intermediaries and thus could have a material adverse effect on CYBG Group if this business was not replaced through other channels. Also, there could be consolidation in the intermediary mortgage market which may change the behaviour of intermediaries in ways which may have a material adverse effect on CYBG Group. Any of these factors could have a material adverse effect on CYBG Group's ability to meet its strategic objectives for mortgage asset growth and, consequently, its business, financial condition, results of operations and prospects.

16. ***CYBG Group is a supplier of credit to the buy-to-let sector in the UK. Many borrowers in the sector have yet to operate through an entire economic cycle, and any weakness in their credit quality may impact the financial and operational performance of CYBG Group.***

The buy-to-let market in the UK has expanded rapidly in recent years and CYBG Group is a supplier of credit to this market. As at 30 September 2015, 31.3 per cent., or £6,418 million of CYBG Group's outstanding mortgage balances were buy-to-let loans and 88.2 per cent. or £5,663 million of such buy-to-let loans were on an interest-only basis. Borrowers of buy-to-let mortgages have benefitted in recent years from a combination of low interest rates, rising house prices and increasing rents, as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. The Finance (No. 2) Act introduced provisions to limit the income tax relief on mortgage interest expense available on residential property to buy-to-let landlords from 6 April 2017. If rental rates were to decrease or remain stagnant, interest rates were to increase, further tax changes were to reduce the post tax return on buy-to-let investments and/or the economy were to weaken and place pressure on employment, consumer incomes and/or house prices, the credit performance of CYBG Group's buy-to-let mortgage book could deteriorate, which in turn could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

17. ***CYBG Group is exposed to the risk of customers who have interest-only owner-occupied mortgage loans being unable to repay their loans in full at maturity.***

CYBG Group 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 customer pays interest during the term of the mortgage loan with the principal balance being required to be repaid in full at maturity. As at 30 September 2015, capital repayment mortgages comprised 70.4 per cent. or £9,919 million of CYBG Group's owner-occupied mortgage loan portfolio and interest-only loans comprised 29.6 per cent., or £4,167 million.

In respect of CYBG Group's owner occupied interest-only mortgage customers, assessments of capital repayment plans may be incomplete or out-of-date and consequently, CYBG Group may lack information to accurately evaluate the related repayment risk. As a result, CYBG Group may have reduced visibility of future repayment issues in respect of its interest-only residential mortgages, which could limit CYBG Group's ability to estimate and establish provisions to cover exposures resulting from these mortgages.

While property sale is an acceptable method of repayment for buy-to-let mortgages, owner-occupied mortgage customers taking out interest-only mortgages are required by regulation to have a capital repayment plan. Where such repayment plans are inadequate or have not been executed as planned, CYBG Group 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. CYBG Group 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 CYBG Group's owner-occupied mortgage portfolio which could have a material adverse effect on its profitability. The risk increases if, at the maturity of the loan, the customer 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.

18. ***CYBG Group is subject to risks associated with customer and counterparty non-performance.***

Credit risk is the risk that a counterparty or customer will fail to meet its obligations to CYBG Group in accordance with agreed terms. CYBG Group has exposures to many different products, counterparties and obligors whose credit quality can have a significant adverse impact on CYBG Group's business, results of operations, financial condition and prospects. Retail and business lending activities account for most of CYBG Group's credit risk. As at 30 September 2015, mortgage lending comprised 71.2 per cent. of CYBG Group's customer loan portfolio of £28,783 million, business loans comprised 24.5 per cent. and unsecured personal lending (including personal loans, credit cards and overdrafts) comprised the balance. Other sources of credit risk include but are not limited to the extension of credit commitments and guarantees, the holding of investments for liquidity purposes (including UK gilts), inter-bank transactions, letters of credit and trade financing, derivative transactions entered into for hedging purposes, foreign exchange transactions, placing of deposits, acceptances and the settlement of transactions. As at 30 September 2015, CYBG Group's maximum exposure to credit risk was £45,585 million. See note 39 to the Historical Financial Information for further information on credit risk exposure.

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

In the ordinary course of its operations, CYBG Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to CYBG Group'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. CYBG Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could materially adversely affect CYBG Group's business, results of operations, financial condition and prospects.

Further, there is a risk that, despite CYBG Group's belief that it conducts an accurate assessment of customer 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 CYBG Group's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

19. ***Concentration of credit risk could increase CYBG Group's potential for significant losses.***

As at 30 September 2015, substantially all of CYBG Group's assets and business is related to customers in the UK, and in the case of mortgages, there are concentrations in Greater London, the rest of the South of England, the North of England and Scotland. The South of England (including Greater London) accounted for approximately 37 per cent. of CYBG Group's mortgages as at 30 September 2012, 39 per cent. as at 30 September 2013, 43 per cent. as at 30 September 2014 and 48 per cent. as at 30 September 2015. Each geographic region within the United Kingdom has different economic features and prospects. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of borrowers in respect of mortgage 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 CYBG Group has significant business or assets, concentrations of credit risk could cause CYBG Group to experience greater losses than some competitors.

In addition, CYBG Group faces concentration risks relating to its agricultural lending, which as at 30 September 2015 amounted to approximately 24.0 per cent. of CYBG Group's total business lending and 5.9 per cent. of CYBG Group's total customer loans. CYBG Group could be disproportionately impacted compared to some competitors by a deterioration of market conditions in the agricultural sector due to, for example, adverse seasonal weather patterns, falling land prices, global oversupply and volatility in commodity markets, changes in government policy such as reductions to farming subsidies (including those provided by the Common Agricultural Policy in the EU), dairy price pressure reducing the profitability of dairy producers or an outbreak of livestock disease such as foot and mouth disease. While CYBG Group regularly monitors its credit portfolios to assess potential concentration risk, efforts to divest, diversify or manage CYBG Group's credit portfolio against concentration risks may not be successful. Concentration of credit risk could result in a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

20. ***CYBG Group faces risks associated with its dependence on third-party service providers for certain functions.***

CYBG Group depends on a number of third-party providers for a variety of functions including for IT software and platforms, ATM services, payment system services, mobile application services, credit card production services and cheque processing services. CYBG Group relies on the continued availability and reliability of these service providers. If CYBG Group'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, CYBG Group will be required to identify and implement alternative arrangements. CYBG Group 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 CYBG Group's operations and could have a material adverse financial or reputational impact on CYBG Group. It may result in a higher risk premium being applied to CYBG Group, and adversely impact the cost of funding its operations, or its financial condition. Reputational damage to CYBG Group's brands caused by the failure of a third-party supplier may also adversely impact CYBG Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

CYBG Group will also depend on transitional services arrangements with NAB that are discussed below in "*Risks Relating to CYBG Group's Relationship with NAB*".

21. ***CYBG Group is exposed to risks associated with cyber crime and fraud.***

CYBG Group is subject to the risk of actual or attempted IT security breaches from parties with criminal or malicious intent. Should CYBG Group's intrusion detection and anti-penetration software not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur in a system for which there is no duplication, there may be a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

CYBG Group continues to invest in its information security controls in response to emerging threats, such as cyber 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 group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to CYBG Group 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. CYBG Group 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 CYBG Group's operational performance and reputation.

Any breach in security of CYBG Group's systems, for example from increasingly sophisticated attacks by cyber crime groups or fraudulent activity in connection with customer accounts, could disrupt its business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage CYBG Group's reputation and/or brands.

22. ***CYBG Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments.***

CYBG Group faces risks related to its hedging and treasury operations. CYBG Group engages in hedging activities, for example in relation to interest rate risk, to limit the potential adverse effect of interest rate fluctuations on its results of operations. CYBG Group's treasury operation has responsibility for managing the interest rate risk that arises through its customer facing business, management of its liquid asset buffer and investment of free reserves and interest rate insensitive deposit balances. Interest rate hedges for both customer assets and liabilities are calculated using a behavioural model. However, CYBG Group does not hedge all of its interest rate, foreign exchange and other risk exposures and cannot guarantee that its hedging strategies will be successful because of factors such as behavioural risk, unforeseen volatility in interest rates or other market prices or, in times of market dislocation, the decreasing credit quality, or unavailability, of hedge counterparties. CYBG Group also has cross currency hedging instruments in place for cross currency funding. If its hedging strategies are not effective, CYBG Group may be required to record negative fair value adjustments. Material losses from the fair value of financial assets would also have an adverse impact on CYBG Group's capital ratios.

Through its treasury operations, CYBG Group holds liquid assets portfolios potentially exposing CYBG Group to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of CYBG Group's liquid assets portfolios could fall more than estimated and cause CYBG Group to record mark to market losses. In a distressed economic or market environment, the fair value of certain of CYBG Group's exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant negative changes in the fair value of CYBG Group's exposures, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Interest-rate insensitive PCA balances form a significant part of CYBG Group's funding. The Directors believe that the current, historically low, level of five-year swap interest rates, coupled with the probability of these rates increasing in advance of any increase in the Bank of England base rate, means that these balances may generate a higher level of income in the future than they do currently. However, if customer behaviours were to change significantly, PCA balances may become more volatile and may no longer be suitable for swaps of the current duration, which could have a material adverse effect on the income generated by these balances.

23. ***CYBG Group could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties.***

Given the high level of interdependence between financial institutions, CYBG Group is and will continue to be subject to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. This was the case after the bankruptcy of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by CYBG Group or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, industry payment systems, clearing houses, banks, securities firms and exchanges with whom CYBG Group interacts on a daily basis. Systemic risk could have a material adverse effect on CYBG Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

CYBG Group routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, insurance companies and other institutional clients, resulting in large daily settlement amounts that may give rise to significant credit exposure. In particular, CYBG Group interacts with these financial institutions through a variety of interbank electronic payments systems that underpin clearing and settlement amongst financial institutions. As a result, CYBG Group faces concentration risk with respect to specific counterparties including payment system participants and operators. In addition, CYBG Group will have a significant volume of counterparty and operational risk with NAB due to NAB acting as Clydesdale Bank's sole clearing provider, on an arm's-length basis, for central clearing of a high volume of derivative transactions through LCH.Clearnet Limited, in preparation for compliance with clearing requirements under the European market infrastructure regulation (Regulation 648/2012) ("**EMIR**") which have yet to come into force. See "*CYBG Group is subject to the potential impacts of UK and European banking and financial services reform initiatives*" below for more information on this. A default by, or concerns about, the creditworthiness of NAB or one or more other financial services institutions could therefore adversely impact CYBG Group.

24. ***A downgrade in the credit rating of the Company or Clydesdale Bank, the UK banking sector or the UK Government may have an adverse effect on CYBG Group's business, results of operations, financial condition and prospects.***

Credit ratings are an important reference for market participants in evaluating CYBG Group and its products, services and securities. Credit rating agencies conduct ongoing review activity which can result in changes to credit rating settings and outlooks for CYBG Group and/or the UK banking sector, or for the UK Government. Review activity is based on a number of factors including CYBG Group's financial strength and outlook, the assumed level of UK Government support for CYBG Group in a crisis and the strength of the UK Government, and the condition of the financial services industry and of the markets generally.

Credit ratings may also be affected by changes in the rating methodologies used by the credit rating agencies. Recent methodology changes and the ongoing Eurozone crisis have resulted in the review of sovereign and global bank ratings and securitisation and covered bond ratings. There is the potential for this ongoing review activity to continue, particularly in periods of increased market volatility.

CYBG Group has been and continues to be in discussion with various credit rating agencies about ratings for Clydesdale Bank and obtaining a rating following Admission for the Company, as a standalone bank holding company. It is anticipated that shortly following the Global Offer and Demerger, such credit rating agencies will announce the results of their reviews. Whilst Clydesdale Bank has previously been rated, such rating was premised on support from NAB. Consequently the ratings for the Company and Clydesdale Bank may be more likely to be reviewed or placed on negative watch than institutions with a longer track record as publicly listed financial institutions. Any downgrade in the credit rating of the Company or Clydesdale Bank or their securities, or the UK banking sector generally, or a downgrade in the sovereign rating of the UK could:

- adversely affect CYBG Group's liquidity and competitive position;
- undermine confidence in CYBG Group;
- increase CYBG Group's borrowing costs; or
- limit CYBG Group's access to the capital markets or limit the range of counterparties willing to enter into transactions with CYBG Group, as many institutions require their counterparties to satisfy minimum ratings requirements,

and consequently, have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

In February and April 2013, both Moody's and Fitch reduced the UK's long-term sovereign credit ratings, from Aaa to Aa1 (in the case of Moody's) and from AAA to AA+ (in the case of Fitch). Although these actions have not directly impacted the respective agencies' ratings of the Company or Clydesdale Bank, any further downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact the Company's or Clydesdale Bank's own ratings, borrowing costs and ability to fund themselves and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

A further UK sovereign credit rating downgrade or the perception that such a downgrade may occur could depress consumer confidence, restrict the availability and increase the cost of funding for individuals and companies, further depress economic activity, increase unemployment and reduce asset prices.

25. ***Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes.***

CYBG Group currently raises funding through secured funding issuances from the Lanark RMBS programme, the Lannraig buy-to-let RMBS programme and the Clydesdale Bank regulated covered bond programme. These secured funding programmes require that minimum credit ratings are maintained in respect of various counterparties appointed to such programmes, including Clydesdale Bank. If such ratings are not maintained, the relevant counterparty may be replaced or other action may be required to be taken.

Any rating agency that is rating any of the secured funding programmes may at any time revise its relevant rating methodology or revise its current ratings criteria. An adverse change to any relevant rating methodology or current ratings criteria or any downgrade of the rating of Clydesdale Bank or other counterparties may result in breaches of minimum ratings requirements in the transaction documents of the secured funding programmes, including where Clydesdale Bank acts as a relevant counterparty, for example, as seller of mortgage loans, collection account bank, servicer and cash manager. Actions required to be taken following a downgrade of Clydesdale Bank's ratings below certain minimum rating requirements may include, amongst other things, borrowers under mortgage loans being notified that Clydesdale Bank has assigned its beneficial interest in their mortgage loans and the role of collection account bank being moved away from Clydesdale Bank and borrowers being instructed to amend their payment instructions and direct debits and the appointment of third-party back up servicers and cash managers to the secured funding programmes. Such action by Clydesdale Bank may lead to negative publicity in respect of Clydesdale Bank and uncertainty amongst borrowers as to how they are required to discharge their obligations under their mortgage loans which may, in turn, result in payments being made by borrowers to incorrect accounts or payments being missed. In addition, the requirement to comply with any revised rating methodology or criteria or any breach of minimum ratings requirements may result in certain actions being required to be taken pursuant to the contractual documentation and/or amendments needing to be made to the programme documentation, which may require the consent of the relevant note trustee, security trustee and/or noteholders in respect of the relevant programme. In the event that such actions are not taken and/or such amendments are not able to be made, including as a result of noteholders not agreeing to such proposed amendments, the credit ratings of the notes issued pursuant to the relevant secured funding programme may be adversely affected and an event of default under such secured funding programme may occur. In such circumstances, CYBG Group may incur significant expense and operational risk and the ability of CYBG Group to raise further funding pursuant to the relevant secured funding programme may be adversely affected, which could require it to raise more expensive forms of funding, which in turn, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects. See Part 14: "*Additional Information – Funding Programmes*" for more information on the terms of CYBG Group's secured funding programmes.

CYBG Group has been and continues to be in discussion with various credit rating agencies about ratings for Clydesdale Bank and obtaining a rating following Admission for the Company, as a standalone bank holding company. It is anticipated that shortly following the Global Offer and Demerger, such credit rating agencies will announce the results of their reviews.

In addition, CYBG Group has received a specific request from one of the rating agencies for certain financial information relating to its assessment of Clydesdale Bank's short- and/or long-term deposit rating, the outcome of which is expected shortly. The outcome of this assessment could be a near-term downgrade of the short- and/or long-term deposit rating or the placing of such rating on credit watch with negative implications.

A downgrade of the short- and/or long-term deposit rating would require Clydesdale Bank to take mitigating actions, including those discussed above, in relation to its existing secured funding programmes. Clydesdale Bank does not anticipate any such downgrade, or the associated mitigating actions, to have any material impact on its ability to raise deposits or further funding from general capital markets sources (including secured funding), the cost of funding, or the ability of Clydesdale Bank to continue to comply with contractual obligations under any relevant existing secured funding programmes.

26. ***Since August 2012 the UK Government has provided significant support to UK financial institutions pursuant to the FLS. Any significant reduction or withdrawal of the FLS or other funding schemes could increase competition for other sources of funding which could adversely impact CYBG Group.***

Since August 2012 the UK Government has provided significant support to UK financial institutions, including through liquidity schemes and credit guarantee schemes. FLS, which became operational on 1 August 2012, was designed to reduce funding costs for participating institutions so that they could make loans to customers more readily available and at lower interest rates. The FLS scheme has been extended a number of times since its introduction with drawings with a maturity of up to four years currently permitted until 29 January 2016.

Clydesdale Bank received permission to participate in FLS on its introduction but did not borrow any funds under the scheme and withdrew from the scheme on 31 January 2015. However, financial institutions that have relied significantly on FLS and other government schemes to meet their funding needs will need to find alternative sources of funding when that support is reduced or withdrawn. In such a scenario, CYBG Group will face increased competition for funding, particularly retail funding on which it relies to a significant extent. This competition could increase CYBG Group's funding costs and have a material adverse effect on its business, results of operations, financial condition and prospects.

27. ***CYBG Group'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 CYBG Group and its prospects.***

The management of credit, operational, regulatory, compliance, balance sheet and liquidity, market, foreign exchange, interest rate, pension, strategic, reputational and other 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 CYBG Group faces in its business activities, including, in particular:

- credit risk, being the potential that a customer or counterparty will fail to meet its obligations to CYBG Group in accordance with agreed terms, which arises from both CYBG Group's lending activities and markets and trading activities. See "*CYBG Group is subject to risks associated with customer and counterparty non-performance*" above;
- operational risk, being the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. See "*CYBG Group is exposed to risks associated with its IT systems*" below and "*CYBG Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events*" below;
- regulatory risk, consisting of regulatory strategy and change risk and regulatory relationship risk. See "*Regulatory Risks*" below;

- compliance risk, being the risk of failing to properly interpret and comply with relevant laws, rules, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks and incorporating financial crime risk, which includes risks relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes;
- balance sheet and liquidity risk, being the risk that CYBG Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. See "*CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding*" above;
- market risk, being the risk associated with adverse changes in the fair value of positions held by CYBG Group as a result of movement in market factors such as interest rates, foreign exchange rates, volatility and credit spreads;
- defined benefit pension risk, being the risk that, at any point in time, the available assets to meet pension liabilities are at a value below current or future scheme obligations. See "*Risks Relating to Pension Schemes*" below;
- strategic risk, being the risk of significant loss or damage arising from business decisions that impact the long-term interests of CYBG Group's stakeholders or from an inability to adapt to external developments; and
- other risks, including but not limited to funding and funding diversification risk, which is the risk of loss resulting from the inability to raise and maintain sufficient funding or the insufficient diversification of funding to spread risk, and model risk, which is the risk of loss resulting from inappropriate models and outputs that can lead to poor business decisions being taken. More information on each of these risks, together with the risks above, is provided in Part 6: "*Risk Management*".

CYBG Group has a range of systems designed to measure and manage the various risks which it faces, as described further in Part 6: "*Risk Management*". Some of these methods are based on historic market behaviour and may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience. Historical data may also not adequately allow prediction of circumstances arising due to UK Government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to CYBG Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though CYBG Group constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, including in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on CYBG Group's business, financial condition, results of operations and prospects.

28. ***CYBG Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events.***

CYBG Group's business is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events. Operational risks arise from the day-to-day operational activities of CYBG Group, which may result in direct or indirect losses and could adversely impact CYBG Group's business, financial condition, results of operations and prospects. These losses may result from both internal and external events, and risks. 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, fraud, deficiencies in employees' skills and performance or human error, or other idiosyncratic components of operational risk that are related to CYBG Group's particular size, nature and complexity. External events include, but are not limited to, operational failures by third-party providers (including offshored and outsourced providers), actual or attempted external IT security breaches from parties with criminal or malicious intent, natural disasters, extreme weather events, political, security and social events and failings in the financial services industry.

CYBG Group is dependent on its information systems and technology from a system stability, data quality and information security perspective. CYBG Group is also dependent on payments systems and technology that interface with wider industry infrastructure; for example, CYBG Group, in common with other banks, is dependent on the CHAPS payment system provided by the Bank of England 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 CYBG Group's ability to conduct its daily operations and CYBG Group's business, financial condition, results of operations and prospects.

In addition, financial models are used extensively in the conduct of CYBG Group's business; for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions and judgements, this may adversely affect CYBG Group's business, financial condition, results of operations and prospects.

CYBG Group may look to implement new operational processes and systems to assist in responding to market developments, such as moves to mobile banking, or to reflect changes in regulations, such as those that require faster electronic payment processing and cheque clearing times and shorter current account switching timelines. Due to the scale and complexity of such projects, CYBG Group 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 CYBG Group. 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.

While CYBG Group does have operational resilience, IT disaster recovery and business continuity contingency plans in place, these are not, and are not intended to be, a full duplication of CYBG Group'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 have a material adverse effect on CYBG Group's business. Any actual or perceived inadequacies, weaknesses or failures in CYBG Group systems or processes could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

29. ***CYBG Group is exposed to risks associated with its IT systems.***

CYBG Group's IT systems are critical to the operation of its business and the delivery of products and services to its customers. Any disruption in a customer's access to account information, delays in making payments, an inability to make cash withdrawals at CYBG Group's ATMs or a failure of online or mobile banking platforms could have a significant negative effect on CYBG Group's reputation and could also lead to potentially large costs both to rectify the issue and to reimburse losses incurred by customers. For example, in September 2014 an overnight batch processing delay occurred, which affected the processing of standing orders totalling £3.2 million and led to customers being unable to access payment services for over an hour. Process improvements have since been implemented and enhancements made to CYBG Group's batch processing which has shortened run time and improved performance significantly. Whilst no re-occurrence of this issue has since been experienced, there can be no assurance that the process improvements made will prove sufficient in preventing similar delays from occurring in the future.

Technological efficiency and automation, including a range of standard form documentation and automatic banking systems across CYBG Group's mainframe, are widely used in CYBG Group's business to process high volumes of transactions. As a result, any defect in CYBG Group's standard documentation or defect in its electronic banking applications or mainframe can be replicated across a large number of transactions before the defect is discovered and corrected. This could significantly increase the cost of remediating the defect, and could expose CYBG Group to regulatory sanction, unenforceability of contracts and reputational damage.

While the Directors believe that CYBG Group's IT systems are scalable and sufficient to meet expected demand, there can be no assurance that its IT systems would support a significant, unexpected or extraordinary increase in online or mobile traffic or volumes of its operations which are dependent on IT in the short term. In such circumstances, CYBG Group may need to upgrade its IT systems and staffing to meet such demand, which is likely to result in a time lag before CYBG Group is able to satisfy such increased demand, which may cause delays to customers and adversely affect its customer service.

Because CYBG Group depends on a number of third-party providers for a variety of functions, including payment service provider systems, any disruption in such systems could have a disruptive effect on CYBG Group's operations. See "*CYBG Group faces risks associated with its dependence on third-party service providers for certain functions*" above.

Further, CYBG Group is currently in the process of implementing a number of IT system upgrades. Should these upgrades not be completed as planned, or become subject to significant delays or suffer from cost overruns, operational performance may suffer. Delays or cost overruns could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

30. ***CYBG Group faces risks relating to its exposure to UK Government debt.***

Like many other UK banks, CYBG Group invests in debt securities of the UK Government, largely for liquidity purposes. As at 30 September 2015, CYBG Group held £1.34 billion of debt securities issued by the UK Government, representing approximately 3.5 per cent. of its total assets. A significant decrease in the market value of these securities, for example, due to political uncertainty or deteriorating economic conditions, would have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

31. ***CYBG Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate.***

The preparation of CYBG Group's financial statements requires 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 IFRS. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the level of impairment provisions for loans and advances, the level of provisions for PPI redress and other conduct related matters, retirement benefit obligations, deferred tax assets, and the fair value of financial instruments. For information on CYBG Group's critical accounting policies, see note 4 to the Historical Financial Information.

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

32. ***CYBG Group's financial performance as set out in the Historical Financial Information may not in all respects be indicative of its future performance as an independent, publicly listed company.***

CYBG Group's Historical Financial Information has been prepared based on the accounts of CYBG Group while it was part of the NAB Group. CYBG Group does not have an operating history as an independent, publicly listed company and the Historical Financial Information does not necessarily reflect the results of operations, cash flows and financial condition that CYBG Group would have achieved as an independent, publicly listed company during the periods presented or those that it will achieve in the future. Relevant factors include (without limitation):

- NAB has historically provided CYBG Group with capital and funding for general corporate purposes, including capital to support regulatory capital requirements and shortfalls, acquisitions and capital expenditure, and managed and retained cash generated by CYBG Group's business. After the Demerger, NAB will not be providing CYBG Group with funds to finance its working capital or other cash requirements. Without the opportunity to obtain capital or funding from NAB, CYBG Group will need to obtain external capital or funding and there is no guarantee that such capital and funding will be available to CYBG Group on terms that are as favourable as those it could have obtained as part of the NAB Group.
- CYBG Group's business has been operated as part of NAB's broader corporate organisation and has been supported by NAB's corporate infrastructure including centralised support for certain functions such as group risk, treasury, insurance administration, investor relations and human resources. CYBG Group's Historical Financial Information reflects certain allocations of corporate expenses from NAB for these functions but may not reflect the full cost of operating these functions as a standalone business. These standalone costs may have a material adverse effect on the future financial performance of CYBG Group.
- Clydesdale Bank has acquired CYB Intermediaries Holdings Limited ("**CYBIHL**") and its subsidiary CYB Intermediaries Limited ("**CYBIL**") (together, the "**Insurance Intermediary**" business) on 30 September 2015. The financial performance of the Insurance Intermediary business is currently not reflected in the Historical Financial Information. See Part 5: "*Operating and Financial Review – Insurance Intermediary Business*" for further details.

33. ***CYBG Group may fail to attract or retain executives, senior managers or other key employees.***

CYBG Group'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-calibre talent. CYBG Group may not succeed in attracting new talent and retaining key personnel for a variety of reasons, including if they do not identify or engage with CYBG Group's brand and values, which represents a major component of CYBG Group's overall strategy, or they do not wish to be located or relocate to CYBG Group's key locations. CYBG Group competes for talented people with skills that are in relatively short supply and CYBG Group 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. CYBG Group may also allocate resources improperly within its newly developed standalone functions or otherwise which could create operational inefficiencies and risks and/or lead to de-motivated senior employees. Each of these factors could have an adverse effect on CYBG Group's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect CYBG Group's business. In addition, external factors such as macro-economic conditions, the regulatory environment developing to increase direct liabilities for bank employees, 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 CYBG Group's business, financial condition, results of operations and prospects.

34. ***CYBG Group could be exposed to industrial action and increased labour costs resulting from employee trade union membership.***

All of CYBG Group employees are currently covered by one collective bargaining agreement with "Unite" the trade union. If CYBG Group sought to change any of the contractual terms with its employees, it would have to undertake a consultation and negotiation process with trade union representatives. Consultations with trade unions may not always be successful, potentially leading to increased labour costs. In the unlikely event that negotiations are unsuccessful and result in industrial action (which may, for example, include actions that could lead to losses in operational efficiency and/or actions that are detrimental to CYBG Group's customer service), such action could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

35. ***CYBG Group faces risks associated with a failure to manage changes in taxation rates or applicable tax laws, or from a misinterpretation of such tax laws.***

CYBG Group 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 CYBG Group 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 CYBG Group's profitability. Revisions to tax legislation or to its interpretation might also affect CYBG Group's results of operations and financial condition in the future. In addition, the UK has a predominantly self assessment system for filing of tax returns. All tax returns have been filed by CYBG Group within statutory deadlines, but HMRC has the right to enquire into those returns post filing. Generally an enquiry must be started within 12 months of filing. It is possible that an enquiry may result in a further liability to tax, which, if material, could have a material adverse effect on CYBG Group's business, financial condition, results of operation and prospects.

The UK Government introduced provisions in the Finance (No. 2) Act, enacted on 18 November 2015, to charge an 8 per cent. surcharge on profits of banks to the extent that they exceed £25 million per year (the "**banking surcharge**"). The provisions will apply to accounting periods beginning on or after 1 January 2016 with transitional provisions for accounting periods that straddle that date.

The Finance (No. 2) Act also reduces the main rates of corporation tax to 19 per cent. from 1 April 2017 and 18 per cent. from 1 April 2020. The reductions will be taken into account in financial statements prepared after the enactment of the Finance (No. 2) Act. The impact of the change will be to reduce the value of deferred tax assets, which CYBG Group estimates will result in a charge to the income statement.

36. ***CYBG Group has carried forward tax losses that may not be available to set off against profits.***

CYBG Group had £1.4 billion of unutilised carried forward trading losses as at 30 September 2015 which gave rise to the recognition of a deferred tax asset that is expected to be utilised against future profits. As at 30 September 2015, CYBG Group recognised £389 million of total deferred tax assets on its balance sheet, of which £273 million was in respect of tax losses carried forward, and a deferred tax liability of £10 million in respect of the benefit pension scheme asset. The value of these assets is subject to changes in taxation rates or applicable tax laws. For example, a measure was enacted in the Finance Act 2015, enacted on 26 March 2015 (the "**Finance Act**"), restricting the proportion of banks' taxable profit that can be offset by certain carried-forward losses. This measure will only apply to legacy losses incurred prior to 1 April 2015. The effect of this measure is that the rate at which losses can be offset against taxable profits will be restricted; accordingly, actual tax payments may become due earlier than previously anticipated and the period over which deferred tax assets are utilised is consequently extended. Similarly, the Finance (No. 2) Act introduced measures to make certain types of compensation payments for mis-selling non-deductible for corporation tax purposes. The impact of that legislation is likely to increase taxable profits (and taxes) and therefore it may reduce the risk associated with deferred tax asset recognition.

The recognition and utilisation of deferred tax assets is subject to the availability of sufficient future taxable profits. See note 24 to the Historical Financial Information for further information. The inability to utilise deferred tax assets, or the failure to manage these risks adequately, could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

RISKS RELATING TO CYBG GROUP'S RELATIONSHIP WITH NAB

NAB is undertaking the Demerger to separate CYBG Group's operations from the remaining NAB businesses, to form two separate corporate groups. For further details see Part 13: "*Details of the Demerger and Company Capital Reduction*".

Notwithstanding the timing of the completion of the Demerger, there are risks that might impact CYBG Group as long as NAB and CYBG Group have an ongoing contractual relationship, including through the TSA and arm's length arrangements for central clearing of derivative transactions, as described in "*CYBG Group could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties*" above. Highlighted below are certain of the key risks that apply to CYBG Group's relationship with NAB that, should they arise, may have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

37. ***CYBG Group's reliance on transitional services arrangements with NAB exposes CYBG Group to a range of potential operational and regulatory risks.***

In connection with CYBG Group's Demerger from NAB, on 29 January 2016, Clydesdale Bank entered into an arm's-length transitional services agreement ("**TSA**") with NAB for the continued provision of a range of certain key services to CYBG Group on a transitional basis.

Whilst Clydesdale Bank is largely standalone, CYBG Group will be reliant on NAB under the TSA for the provision of certain key services supporting elements of the risk, treasury, human resources and finance functional areas. These will require ongoing support from NAB to allow CYBG Group time to develop its own replacement systems and supporting processes. While a number of business functions and processes within these categories have been created and implemented for CYBG Group as part of its operational separation from NAB, these business functions and processes will continue to be dependent upon the various operational services under the TSA. In addition, while data migration efforts will be prioritised to comply with regulatory requirements, access to other data, particularly historical data, will likely be required from NAB to support operations.

The systems and infrastructure that NAB will use to provide services to CYBG Group may not operate as expected, may suffer periods of reduced compatibility, may not fulfil their intended purpose or may be damaged or interrupted by unanticipated increases in usage, human error, misaligned software updates, unauthorised access, natural hazards or disasters or similarly disruptive events. While NAB will be bound by arm's-length contractual obligations under the TSA (including with respect to service performance, recovery of service, change management, confidentiality/data security and disaster recovery), events impacting NAB's ability to honour its contractual commitments to CYBG Group under the TSA, such as human error, unauthorised access, events of force majeure, insolvency or other triggers for intervention by prudential authorities or any failure by NAB to procure continued service performance from any of NAB's subcontractors, or any failure of the underlying systems or infrastructure used by NAB or its subcontractors, could result in significant disruptions (including in the delivery of services to CYBG Group) and costs that adversely affect the overall operational performance, financial performance, financial position or prospects of CYBG Group's business, as well as harm CYBG Group's reputation and/or attract increased regulatory scrutiny.

Any interruption to the services provided under the TSA could materially adversely affect CYBG Group's business and reputation, and could cause CYBG Group to incur higher administrative and other costs both for the processing of business and the potential remediation of disputes. If NAB fails to provide or procure the services envisaged or fails to provide them in a timely manner, under the TSA, such failure could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

For more information on CYBG Group's transitional services arrangements with NAB and the terms of the TSA see Part 2: "*Information on CYBG Group – Relationship with NAB*" and Part 14: "*Additional Information – Material Contracts – Transitional Services Agreement*".

38. ***CYBG Group faces potential risks associated with its separation from NAB.***

As part of its separation from NAB, CYBG Group has developed and restructured its own functions and processes in a range of areas, including making its risk systems independent from NAB's, enhancing or streamlining certain of its back office processes, separating knowledge and education management systems, separating human resource processes as well as introducing shareholder services and investor relations platforms. Some of these functions and processes will in some respects continue to be supported by various services under the TSA and others have been developed as standalone functions. In addition to the TSA, CYBG Group's ongoing contractual relationship with NAB will include NAB acting as CYBG Group's sole clearing provider for central clearing of derivative transactions and CYBG Group providing certain operational support services to NAB's London branch. For more information on clearing arrangements see Part 2: "*Information on CYBG Group – Relationship with NAB – Swaps*".

There is a possibility that these functions and processes may not operate as intended or the execution of the separation process and the creation of new processes may not have been properly completed. Consequently, there is a risk that CYBG Group could suffer operational difficulties which, either directly or as a result of the need for further financial investment or through the depletion of management resources in developing, monitoring and/or rectifying these new services and functions, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

39. ***CYBG Group faces potential risks associated with migration from the arrangements under the TSA to new standalone arrangements.***

Each of the transitional services arrangements made between CYBG Group and NAB under the TSA will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone arrangement within a certain timeframe. For example, in relation to the credit risk engine it is proposed that CYBG Group will develop its own solution to support the calculation of credit risk-weighted assets ("**RWAs**") and related risk models within 24 months of separation and it is expected to have full standalone arrangements for all of its functional areas in place in approximately 34 months from separation. Although this and other migrated services and processes will be subject to testing before implementation into the ordinary operational processes of CYBG Group, these new functions may not operate as intended, or may not be transferred within expected timeframes or may cost more than budgeted to develop. As a result, there is a risk that CYBG Group could suffer operational difficulties in the future which, either directly or as a result of the need for further investment in these new services and functions or a need to make additional payments or incur other costs under the TSA to NAB, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO PENSION SCHEMES

Clydesdale Bank is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme (the "**DB Scheme**"). The DB Scheme is a defined benefit pension scheme and assets of the DB Scheme are held in a trustee administered fund. Risk arises from the DB Scheme because from time to time there may be insufficient assets to cover the defined benefit liabilities of the scheme (i.e. there is a deficit in the scheme) and Clydesdale Bank and any other employers from time to time in CYBG Group are obliged by legislation and the governing documents of the scheme to fund the liabilities.

40. ***CYBG Group may be required to increase its contributions to the DB Scheme to fund deficits.***

The ongoing financial commitment of Clydesdale Bank to the DB Scheme may increase over time either because the cost of providing benefits in the future will increase or because the actuarial funding deficit increases. The actuarial funding deficit of the DB Scheme and the financial commitments of Clydesdale Bank to the DB Scheme are assessed at regular actuarial valuations. The actuarial funding deficit in the DB Scheme can increase because of many factors outside the control of CYBG Group (for example, changes in market conditions or member longevity). If the actuarial funding deficit increases, Clydesdale Bank could be obliged to make additional contributions to the scheme, and/or pay in lump sums and/or set aside additional capital in respect of pensions risk. This could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

The most recent valuation of the DB Scheme as at 30 September 2013 indicated an actuarial funding deficit of £450 million and the deficit will be reassessed at the next valuation. CYBG Group agreed to make the following contributions to eliminate the deficit: £65 million on 1 October 2013; £150 million by 30 June 2014; £50 million on 1 October 2017; thereafter £50 million annually until 1 October 2021; and £55 million on 1 October 2022. Deficit reduction payments of £215 million have been made since the valuation date of 30 September 2013, and the next payment of £50 million is scheduled on 1 October 2017. The next regular valuation of the DB Scheme would take place with an effective date of 30 September 2016 but it is open to the trustees of the DB Scheme to call for valuations at an earlier date. The assumptions used for the statutory valuation would generally need to be agreed between CYBG Group and the trustees of the DB Scheme although the Pensions Regulator has the power to set these in certain circumstances.

41. ***CYBG Group may be required to make contributions to the DB Scheme based on a more onerous "buy out" funding basis.***

While the actuarial funding deficit will usually set the cash funding demands placed on Clydesdale Bank, in some cases the cash demands can be based on the deficit in the DB Scheme calculated by reference to the cost of buying out the scheme's liabilities in the insurance market i.e. the buy-out basis deficit. The buy-out deficit at the last estimate, as at 30 September 2013 was estimated to be £2.07 billion. Cash demands on this basis can be made in the circumstances set out in legislation including in the event of the wind up of the DB Scheme; insolvency of an employer; or an employer leaving the scheme; none of which CYBG Group considers likely to occur. The Pensions Regulator also has the power to require an employer of a defined benefit scheme or a person connected or associated with it to make a contribution to or provide financial support for that scheme in certain circumstances.

42. ***CYBG Group is subject to additional regulatory capital requirements associated with defined benefit pension scheme risk.***

Under Pillar 2A of the Basel III framework, additional minimum capital requirements are set by the PRA through the issuance of bank specific individual capital guidance ("**ICG**"), which reflects a point in time estimate by the PRA, which may change over time, of the total amount of capital that is needed by the bank. The ICG includes an assessment of risks that are not fully covered by Pillar 1, such as credit concentration and operational risk, and those risks not covered by Pillar 1, such as pensions and interest rate risk. The PRA requires each bank and banking group to maintain adequate capital resources to meet their total capital requirements (Pillar 1 and Pillar 2) under the Basel III framework. This includes any additional capital requirements identified through the firm's or group's ICG.

In order to satisfy the requirements of Pillar 2, CYBG Group is required to perform an internal capital adequacy assessment process ("**ICAAP**"). One of the key risks associated with the ICAAP is the defined benefit pension scheme obligation risk. This risk involves the potential for additional unplanned costs that CYBG Group would incur in the event of a significant deterioration in the funding position of CYBG Group's defined benefit pension scheme.

As at 30 September 2015, the fair value of CYBG Group's defined benefit pension scheme assets was £3,565 million and the balance for accounting purposes of CYBG Group's defined benefit pension obligations was £3,513 million. The volume of defined benefit pension assets and liabilities held, in conjunction with the series of complex and interdependent actuarial assumptions used to assess the pension scheme, can be highly volatile, which can have an adverse impact on CYBG Group's other comprehensive income or loss and regulatory capital requirement.

CYBG Group's DB Scheme had an accounting deficit of £301 million as at 30 September 2012, an accounting deficit of £197 million as at 30 September 2013, an accounting surplus of £49 million as at

30 September 2014 and an accounting surplus of £52 million as at 30 September 2015. As part of the ICAAP process, CYBG Group must allocate capital to cover the risk associated with its defined benefit pension scheme obligations under Pillar 2A. The pension scheme obligations include cash contributions. The cash contribution requirement is based on the actuarial assessment of the pension scheme obligations which differs from the accounting basis and may increase due to factors outside of CYBG Group's control. See "*CYBG Group may be required to increase its contributions to the DB Scheme to fund deficits*" above for further information. CYBG Group may need to hold additional regulatory capital to cover an increase in net pension scheme obligations, and such additional capital requirement could be material.

43. ***CYBG Group's reported accounts may be adversely impacted.***

CYBG Group makes an assessment of the financial position of the DB Scheme (including assessing the deficit for accounting reporting purposes – the "accounting deficit") for the purposes of its year end accounts and associated disclosures, in accordance with accounting requirements. Many of the factors that influence the accounting deficit are outside the control of CYBG Group and may lead to increased liabilities being shown in the accounts.

REGULATORY RISKS

CYBG Group'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 and the European Union. These laws, rules, and regulations include: (i) prudential regulatory developments; (ii) increased regulatory oversight in respect of conduct issues; and (iii) industry-wide initiatives. Each of these has costs associated with it, may significantly affect the way that CYBG Group 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, discussed in greater detail below, could materially adversely affect CYBG Group's access to liquidity, increase its funding costs, increase its compliance cost, delay, limit or restrict its strategic development and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

44. ***CYBG Group is subject to substantial and changing prudential regulation.***

CYBG Group faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. CYBG Group's borrowing costs and capital requirements could be affected by these prudential regulatory developments, which include: (i) the legislative package implementing the proposals of the Basel Committee (known as Basel III) in the European Union and amending and supplementing the existing Capital Requirements Directive ("**CRD IV**") and other regulatory developments impacting capital, leverage and liquidity positions, including a requirement for an Individual Liquidity Adequacy Assessment ("**ILAA**") the purpose of which is to help ensure CYBG Group complies with the overall liquidity risks; and (ii) the Bank Recovery and Resolution Directive (*2014/59/EU*) which establishes an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**"). Any future prudential regulatory developments could have a material adverse effect on CYBG Group's business, results of operations and financial condition.

CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks and bank holding companies with effect from 1 January 2014, including: increased minimum levels of capital and additional minimum capital buffers; enhanced quality standards for qualifying capital; increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and the introduction of a minimum Leverage Ratio. CRD IV provides for some of these measures to be phased in over a transitional period to 2018.

CRD IV requirements adopted in the UK may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority, changes to the way in which the PRA interprets and applies these requirements to UK banks and bank holding companies or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to CYBG Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

A market perception or actual shortage of capital issued by CYBG Group could result in regulatory actions, including requiring the Company to issue additional Common Equity Tier 1 securities, requiring the Company to retain earnings or suspend dividends or issuing a public censure or the imposition of sanctions. This may affect CYBG Group's capacity to continue its business operations, generate a return on capital, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, in response to any such shortage, CYBG Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

Recovery and Resolution Directive

The BRRD, which contains requirements relating to recovery and resolution plans and early supervisory interventions and the resolution of firms (including the introduction of a bail-in tool) entered into force on 2 July 2014. As an exception to this, Article 124 (which deleted Article 74(4) of CRD IV on requirements on firms concerning recovery and resolution plans and was superseded by the more detailed provisions of the BRRD) came into force on 1 January 2015. While Member States were required to apply such implementing legislation and regulation from 1 January 2015, as an exception, the BRRD permits Member States to apply the provisions on the bail-in tool from 1 January 2016 at the latest.

The BRRD (including the bail-in tool), together with the majority of associated FCA and PRA rules, was implemented in the UK in January 2015. PRA rules requiring contractual clauses in certain debt instruments and unsecured liabilities came into force on 19 February 2015, and PRA rules on contractual recognition of bail-in came into force on 1 January 2016.

The powers referred to in the BRRD include certain powers which overlapped in part with those that were already available in the UK under the Banking Act 2009 (the "**Banking Act**"). The BRRD provides, among other things, for resolution authorities to have stabilisation powers to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary or to require institutions to limit or cease existing or proposed activities in certain circumstances. In addition, it provides for preferential ranking on insolvency for certain deposits that are eligible for protection by deposit guarantee schemes (including the uninsured element of such deposits and, in certain circumstances, deposits made in non-EEA branches of EEA credit institutions) in priority to deposits that are not similarly eligible, and introduces a bank funded resolution fund. It also provides write-down powers to resolution authorities for such authorities to ensure that relevant capital instruments absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant institution or its parent company, as well as a bail-in tool comprising a more general power for resolution authorities to write down (including to zero) the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. If CYBG Group becomes subject to such bail-in or resolution powers, existing shareholders may experience their holdings becoming cancelled, transferred to a third-party or diluted, and may not receive any compensation for their losses. Moreover, in this regard, CET1 capital (which includes ordinary shares), is first in rank in the sequence of securities subject to write down or conversion. As such, this may exacerbate any risk of CYBG shareholders' holdings becoming subject to write down or conversion action. In addition, in a resolution situation, financial public support will only be available to CYBG Group as a last resort after the resolution authorities have assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.

Minimum requirement for own funds and eligible liabilities

The UK Government also intends to implement the BRRD requirement for firms to meet the minimum requirement for own funds and eligible liabilities ("**MREL**"), designed to ensure sufficient loss absorbing capacity and ensuring continuity of critical functions without recourse to public funds. In July 2015, the EBA published final draft regulatory technical standards on criteria to be considered by resolution authorities when setting MREL on a firm-by-firm basis. As it is difficult to predict the effect MREL may have on CYBG Group until MREL has been fully implemented, there is a risk that the requirements of MREL could require CYBG Group to hold additional funds and/or eligible liabilities in order to satisfy the MREL requirements set for CYBG Group, which may increase its compliance costs, delay, limit or restrict the execution of its strategy and may have a material adverse effect on CYBG Group's capital structure, business, financial condition and results of operations. MREL will have an impact across the market including potentially affecting the credit rating of the securities issued by CYBG Group and its competitors and there is a risk that the relative impact may give rise to a reduction in competitiveness of CYBG Group. On 11 December 2015, the Bank of England issued a consultation paper on a proposed Statement of Policy on MREL with responses requested by March 2016. MREL is being phased in from 1 January 2016 to 1 January 2020. During this period the capital framework will also change and given the link between MREL and minimum capital requirements these changes will influence the level of MREL.

Operational risk capital

In a consultation paper issued in October 2014, the Basel Committee proposed certain revisions to the standardised approach for measuring operational risk capital which is used by CYBG Group. The Basel Committee proposed that a statistically superior measure of operational risk, termed the 'Business Indicator', should replace gross income as a key input for determining operational risk capital. In addition, the proposal removes the differentiation by business-line, which was found not to be a significant risk-driver. Instead, the size of the relevant bank is found to be a significant risk-driver and is incorporated into the new methodology.

Once the committee has reviewed responses to this consultative document, it intends to publish the final standard with an appropriate timeframe for implementation and provide sufficient time for the necessary changes to be effected.

Any changes, including regulatory changes arising from the Basel capital adequacy reforms, may require CYBG Group to hold additional operational risk capital which could materially adversely affect CYBG Group's access to liquidity, increase its funding costs, increase its compliance cost, delay, limit or restrict the execution of its strategy and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Credit risk and risk-weighting of assets

The Basel Committee has set out the measures the Basel Committee is taking to improve consistency and comparability in bank capital ratios, and thereby to restore confidence in risk-weighted capital ratios. These measures include: policy proposals to revise the standardised (non-modelled) approaches for calculating regulatory capital ratios that will also provide the basis for a capital floor; and reducing the modelling choices in the capital framework when determining internal-model based estimates of credit, market and operational RWAs.

On 22 December 2014, the Basel Committee published a first consultative document proposing revisions to the standardised approach for credit risk and requested feedback from market participants by 27 March 2015. A second consultative document was published on 10 December 2015 for comment by 11 March 2016. The proposals form part of the Basel Committee's broader work on reducing variability in RWAs and aim to reduce reliance on external credit ratings; increase risk sensitivity; reduce national discretions; strengthen the link between the standardised approach and the IRB approach; enhance comparability of capital requirements across banks; and overall ensure the standardised approach continues to be suitable for calculating the capital requirements for credit risk exposures.

The consultation proposes alternative risk drivers to determine risk weights on a number of exposure classes including corporate exposures, retail exposures and exposures secured by residential real estate and commercial real estate.

To allow the Basel Committee to develop the detail of the proposals, it undertook a quantitative impact study ("**QIS**") for the first consultation and this will be repeated for the second. For the first consultation, Clydesdale Bank participated in and submitted a completed return to the PRA on 14 April 2015, based on data as at 31 December 2014. The return was completed on an exposure category basis and compared the RWA's on the current and proposed approach. This showed that if the proposals were implemented without any mitigation action, as would be expected to be the case for other banks, it would significantly increase CYBG Group's RWAs and subsequently capital held. Clydesdale Bank may be requested to participate in a QIS to support the second consultation. At this stage the proposals remain a consultation only and the final implementation form and date remains unknown.

Concurrently the Basel Committee published a consultative document on revisions to capital floors, designing a capital floor framework based on standardised approaches. The aim of the proposals being to enhance comparability of capital outcomes, mitigate model risk from banks internal model approaches and to ensure there is a minimum level of capital across the banking system.

Any resulting changes introduced in the final standards may increase CYBG Group's capital requirements which may have a material adverse effect on CYBG Group's capital structure, business, financial condition and results of operations.

Interest rate risk in the banking book

The Basel Committee is consulting on supervisory approaches to interest rate risk in the banking book. This includes consideration of applying formal regulation to the calculation of this risk class and not relying on firms' own assessments, any such regulation may increase compliance costs which may have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Firms' assessment of Pillar 2 risks

Following a consultation process in which the PRA investigated firms' approaches to the assessment of risks covered by the Pillar 2 capital regime, the PRA has published a policy statement with feedback, final rules, a supervisory statement and statement of policy in July 2015, as updated in August 2015. The supervisory statement contains requirements in relation to Pillar 2A methodologies, including the new approaches the PRA will use for assessing Pillar 2A capital for credit risk, operational risk, credit concentration risk and pension obligation risk, alongside the existing approaches for market risk, counterparty credit risk and interest rate risk in the non-trading book. It also details the associated data requirements. As at the date of this Prospectus, the principal consequence of the new rules could be an increase in compliance costs for CYBG Group which may have a material adverse effect on CYBG Group's capital structure, business, financial condition and results of operations.

45. ***CYBG Group is subject to substantial and changing conduct regulations.***

CYBG Group is exposed to many forms of conduct risk, which may arise in a number of ways. In particular:

- certain aspects of CYBG Group's current or past business may be determined by its regulators, including the FCA, the PRA, the PSR, HM Treasury, the FOS, the CMA, the UK Information Commissioner's Office or the courts, as not being conducted in accordance with applicable local or, potentially, overseas laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the FOS's opinion. If CYBG Group fails to comply with any relevant regulations, there is a risk of an adverse impact on its business and reputation due to sanctions, fines or other actions imposed by the regulatory authorities. In particular, regulatory and/or other developments in respect of PPI and interest rate hedging products have had, and are likely to continue to have, a material impact on CYBG Group's business;
- CYBG Group may be subject to further allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, which may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in significant costs, which may require provisions to be recorded in CYBG Group's financial statements and could adversely impact future revenues from affected products – See Part 5: "*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress*" for further information in relation to complaints and redress from historical sales of financial products; and
- CYBG Group may be liable for damages to third parties harmed by the manner in which CYBG Group has conducted one or more aspects of its business.

The Banking Reform Act, which received Royal Assent on 18 December 2013 (on its provisions coming into force on a day or days to be appointed in commencement orders), enacts a number of reforms primarily related to the UK's banking sector. These reforms adopt recommendations of the Parliamentary Commission on Banking Standards on 19 June 2013, in its report "Changing Banking for Good", including among other things, proposals for a new banking standards regime governing the conduct of bank staff, the introduction of a criminal offence for reckless misconduct by senior bank staff and steps to improve competition and conduct in the banking sector. Depending on the manner in which these reforms are enforced, they could have a significant impact on CYBG Group's operations, structure, costs and/or capital requirements.

Mortgage Market Review

The FCA introduced new rules following the publication of its MMR, which require, among other things, an assessment of customer affordability in connection with mortgage lending. The MMR permits interest-only loans solely where there is a clearly understood and credible strategy for repaying the principal of the relevant loan (evidence of which the lender must obtain before making the loan and must check at least once during the term of the loan) and the cost of the repayment strategy must be included in the affordability assessment. CYBG Group has created a dedicated team to support customers holding CYBG Group interest-only mortgages with any issues that may arise. CYBG Group expects to incur costs related to its compliance efforts and if the measures are not deemed to be sufficient by the FCA, CYBG Group may face penalties or other sanctions associated with such non-compliance, including as a result of any potential retrospective review.

Mortgage loan-to-income ratio

The PRA has issued rules and the FCA has issued guidance to implement the Financial Policy Committee (the "**FPC**") recommendations on loan-to-income ratios in the UK owner-occupied mortgage market, which has resulted in the introduction of a cap on the number of mortgage loans that lenders can make at or greater than 4.5 times loan-to-income to no more than 15 per cent. of their total number of new mortgage loans and the introduction of an interest rate affordability stress test that assesses whether borrowers could still afford their mortgages if, at any point over the first five years of the loan, the Bank of England base rate were to increase to a level three percentage points higher than the prevailing rate at origination. In addition, following discussion at the FPC's meeting on 26 September 2014, the FPC recommended that HM Treasury exercise its statutory power to enable the FPC to direct, if necessary to protect and enhance financial stability, the PRA and the FCA to require regulated lenders to place limits on mortgage lending, both owner-occupied and buy-to-let, by reference to: (a) loan to value ratios; and (b) debt to income ratios, including interest coverage ratios in respect of buy-to-let lending. The UK Government confirmed that the FPC would be granted these recommended powers of direction over the UK housing market, and the secondary legislation (The Bank of England Act 1998 (Macro-prudential Measures) Order 2015) containing the recommended powers of direction over loan to value limits and debt to income limits in respect of regulated lenders came into force on 6 April 2015. The level of the loan to value and debt to income ratios is not currently known. In addition, any further recommendations proposed by the FPC may have a material impact on CYBG Group's mortgage business and may have a material adverse impact on CYBG Group's ability to meet its strategic lending targets.

The UK Government announced, on 2 February 2015, that following the general election it intends to consult separately on the FPC's recommendations for it to be granted new powers over the buy-to-let market. This consultation will be carried out with a view to building an in-depth evidence base on how the operation of the UK buy-to-let housing market may carry risks to financial stability. The consultative document was published on 17 December 2015. Market participants are requested to provide feedback by 11 March 2016.

It is possible that these changes, or any of the further recommendations which the FPC may issue, may affect the UK mortgage market and reduce the demand for CYBG Group's mortgage products.

Mortgage Credit Directive

The MCD came into effect on 20 March 2014. Member States are required to transpose it into national legislation and regulation by 21 March 2016. The MCD requires, among other things, standardised pre-contractual information, adherence to business conduct rules, calculation of the annual percentage rate of charge in accordance with a prescribed formula, a ban on certain bundling practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. The MCD is broader in scope than current UK mortgage regulation and applies a standard approach to certain niche mortgage markets that the FCA does not currently regulate, including certain buy-to-let mortgages. This could result in certain activities becoming subject to additional regulation. The Financial Services and Markets (Mortgage Credit Directive) Order 2015 ("**MCDO**"), which implements the MCD in the UK, was published in March 2015, with the provisions coming into force in stages between April 2015 and March 2016. Firms may elect to comply with the new rules from September 2015, with CYBG Group planning to comply by March 2016.

The MCD contains an exemption permitting the non-application of the MCD's requirements to buy-to-let mortgages by Member States provided that such Member States have in place an appropriate framework for buy-to-let mortgage activity from 21 March 2016. The UK Government has chosen to rely on this exemption. HM Treasury has amended the definition of regulated activities under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ("**RAO**"), so that second charge mortgages which are currently regulated under the UK consumer credit regime will move into the regulatory regime for residential mortgages from March 2016. The final rules in respect of second charge mortgages have been published in the Mortgage Credit Directive Instrument 2015 (FCA 2015/18) ("**MCDI**"). MCDI will make certain changes to the Mortgage and Home Finance Firms, and Insurance Intermediaries sourcebook and the

Mortgages and Home Finance Conduct of Business sourcebook ("**MCOB**"); ensure that most MCOB requirements apply to second charge mortgages; and apply the MCD's requirements to second charge mortgages in full. Parts of the MCDI will apply from 21 September 2015 and 21 December 2015 respectively, whilst it will come into force on 21 March 2016.

The FCA, pursuant to its consultation paper published in February 2015, published its Policy Statement PS15/11 on 5 June 2015, confirming their approach to implementing the MCDO, including changes to the FCA Handbook to reflect its powers to register, supervise and enforce against firms in relation to the framework. In addition, the FCA will be collecting aggregated data from firms every quarter allowing them to monitor the volume of consumer buy-to-let transactions, the performance of consumer buy-to-let loans and individual firm's treatment of customers in financial difficulty, and the extent of customer detriment. The FCA has also extended the majority of its complaint handling rules (set out in the Dispute Resolution section of the FCA Handbook) to consumer buy-to-let activities.

A project has been established by the FCA for the implementation of the MCD and the MCDO final rules, however, until the final design has been confirmed, it will be difficult to assess the cost implications for CYBG Group. As at the date of this Prospectus, the principal consequence of the implementation of the MCD and the MCDO for CYBG Group could be an increase in CYBG Group's compliance costs associated with CYBG Group's mortgage business, including an increase in CYBG Group's compliance costs associated with the reporting requirements and implementing relevant amendments to the FCA Handbook. However, until the relevant provisions are in force, the full impact of the MCD and the MCDO on CYBG Group cannot be ascertained but the provisions may have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Retail and wholesale banking reviews

The FCA has commenced thematic work as part of a wider review of the retail banking market. The FCA's thematic work includes a review of cash savings, mobile money, sales management practices, the impact of cost-cutting initiatives on different consumer groups, packaged bank accounts, credit cards, complaints handling and mortgage responsible lending. The FCA also indicated in its Business Plan 2015/16 that it will look at various competition issues in the mortgage market including barriers to competition and consumers' ability to switch provider or access credit.

In addition, following the publication of market studies conducted by the CMA which identified aspects of the retail banking market (including evidence of a lack of transparency) which, the CMA concluded, could prevent, restrict or distort competition in the UK, on 6 November 2014, the CMA announced that it had decided to commence an in-depth investigation into the supply of PCAs and other banking services to SMEs in the UK. The CMA published their updated issues statement on 21 May 2015, which highlighted three areas of harm that are expected to be at the focus of the investigation: (i) the extent to which consumers switch between providers; (ii) the level of concentration in the market; and (iii) barriers to entry and expansion. On 22 October 2015, the CMA published its provisional findings and list of proposed remedies identifying competition issues in both the PCA and SME banking markets. The CMA stated that low levels of customer engagement (which includes customers' understanding of the products they hold, engagement in the market by searching and comparing offers and switching providers) decrease banks' incentives to compete for customers through better products, lower prices or innovation. According to their market investigation, the lack of customer engagement is caused primarily by customers' difficulties in obtaining comparative data on the prices and services offered by different banks, and the perception by customers that the switching process is time-consuming or risky, particularly in the PCA market. To address concerns such as these, the CMA has proposed a requirement for banks to prompt retail and SME customers to review their banking services. For example, banks could be forced to send messages to their customers at specific 'trigger points', such as unarranged charges or changes in terms and conditions. The CMA could also require banks to increase their funding for an advertising campaign promoting CASS, to help raise public confidence in switching bank accounts. There remains significant uncertainty over how the CMA will implement its proposals. Any proposal may not impact all banks equally, for example, it may define markets within the UK in a manner that is disproportionately adverse to CYBG Group. Increased costs and/or a significant loss of customers as a result of any such changes could have a material adverse affect on CYBG Group's business, financial condition, results of operations and prospects. Responses to the CMA's proposals were requested by 20 November 2015, and certain such responses have been published by the CMA.

In June 2014, the Chancellor of the Exchequer announced the Fair and Effective Markets Review ("**FEMR**"), a joint review and consultation by the Bank of England, HM Treasury and the FCA into the effectiveness of the wholesale financial markets. FEMR's final report was published on 10 June 2015 its three main purposes were to analyse the root causes of recent misconduct and other sources of perceived unfairness in the wholesale funding markets, to evaluate the impact of existing reform measures to address these causes and to make recommendations to plug any gaps. The report sets out 21 key recommendations consisting of a mix of near-term actions to improve conduct in the wholesale markets and principles to guide a more forward-looking approach to these markets. The recommendations made in the FEMR report include extending UK criminal sanctions for market abuse for individuals and firms to a wider range of wholesale market instruments, which may include instruments that CYBG Group issues or sells as part of its funding plans, lengthening the maximum sentence for criminal market abuse from seven to 10 years' imprisonment and mandating detailed regulatory references to help firms prevent the 'recycling' of individuals with poor conduct records between firms.

Following a review of competition in the wholesale sector which revealed issues including a concern over a lack of pricing and quality transparency and the effect of bundling together services on new or less established participants in the market, on 19 February 2015, the FCA announced plans to launch its first wholesale market study into investment and corporate banking to assess whether competition in the sector is working properly. The FCA published the terms of reference for the study in May 2015, and has sought the views of market participants, trade bodies and clients. The deadline for providing feedback was in June 2015. The terms of reference state that the review will be focused on (i) the choice of banks and advisers, (ii) the transparency and adequacy of information available to clients and (iii) the issue of bundling and cross-subsidisation of banking services. The FCA intends to publish its interim findings and proposed remedies (if required) ahead of the final report due to be published in spring 2016.

As at the date of this Prospectus, the principal consequence of the FEMR for CYBG Group could be an increase in CYBG Group's compliance costs associated with CYBG Group's compliance infrastructure in respect of its fixed income business.

The outcome of the FCA's thematic reviews, the CMA's investigation and the FCA's wholesale competition market study could have an impact on CYBG Group's operations, including its deposits and overdraft business, credit card business and the features of the banking products that it offers to customers. Should the outcome of the reviews or investigation lead to restrictions on CYBG Group's product offering, CYBG Group's strategic position may be adversely affected. In addition, CYBG Group could become subject to higher costs of compliance in respect of its retail and wholesale banking activities. However, until the findings of the CMA's market investigation and FCA thematic review are known, the impact on CYBG Group cannot be ascertained.

Consumer credit regime

CYBG Group is subject to the consumer credit regime under FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. Certain secondary legislation, made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and is anticipated to take a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that will need to comply with the FCA requirements applicable to the provision of consumer credit, CYBG Group may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for non-compliance. In addition, the courts have wide powers to look again at a credit agreement, when the borrower alleges an aspect of it was "unfair", and render such arrangement unenforceable. As at 30 September 2015, CYBG Group's conduct costs relating to CCA were below the minimum threshold for cover under the Capped Indemnity.

CYBG Group may be materially impacted by any change in the regulatory and/or judicial approach in respect of the interpretation of "unfairness" in the context of PPI which has been sold in conjunction with a CCA regulated credit agreement resulting from the Supreme Court's decision in *Plevin v Paragon Finance Limited [2014] UKSC 61*. See "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" above for additional information on the impact of the *Plevin* case.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage and damage to CYBG Group's brand, which could have a material adverse effect on its business, financial condition, results of operations and relations with customers.

Unfair terms in consumer contracts

CYBG Group's regulated consumer agreements may not in all circumstances comply in all respects with the CCA or other related or similar legislation (such as UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) (the "**UTCCR**") (in respect of which, see below) and the Financial Services (Distance Marketing) Regulations 2004). In such circumstances, as a result, these agreements may only be enforceable at the discretion of the courts (and in relation to pre-6 April 2007 agreements may be entirely unenforceable) or in certain circumstances customers may have the right to cancel their agreement. CYBG Group gives no guarantee that a court order could be obtained if required. If a regulated consumer agreement was found not to comply with such legislation it would still constitute legal, valid and binding obligations of the relevant customer and it would still be possible to collect payments from customers willing to pay their debt, notify relevant credit agencies and in many cases demand arrears from customers who are falling behind with their payments. Further, it is unlikely that CYBG Group will have an obligation to repay or account to a customer for any payments received by CYBG Group notwithstanding any such non-compliance with the CCA or other legislation, except in certain circumstances of credit card agreements cancelled under the CCA or other legislation. Notwithstanding this, the UK regulators and the FOS have shown themselves willing, in certain circumstances, to require reimbursement to customers in situations of undercharging and overcharging.

In addition, it is possible, in certain circumstances, that CYBG Group's mortgage contracts may also be subject to the requirements of the CCA and therefore wholly or partly regulated as credit agreements under the CCA. As a result, it is possible that these agreements may also be unenforceable for any period where CYBG Group has failed to comply with the requirements of the CCA. This could adversely affect CYBG Group's financial position and performance.

Unfair Terms in Consumer Contracts Regulations and the Consumer Rights Act

Prior to the entering into force of the Consumer Rights Act 2015, the UTCCR applied to consumer contracts entered into on or after 1 July 1995. The main effect of these regulations was to render a contract term which was "unfair" enforceable against a consumer. The Consumer Rights Act, which came into effect replaces the UTCCR with a consolidated regime in respect of unfair contract terms which will also extend to individually negotiated contracts and to consumer notices, for contracts entered into on or after 1 October 2015. Contracts entered into before that date will continue to subject to the UTCCR. The Consumer Rights Act also contains clarificatory provisions in relation to consumer rights in respect of goods, services and digital content and provisions which are intended to provide easier access to customers to compensation arising from breaches of consumer or competition law.

Banking Standards Review Council

On 19 May 2014, Sir Richard Lambert published a report (the "**Lambert Report**") which contained recommendations for a new Banking Standards Review Council ("**BSRC**"). The BSRC is an organisation funded by participating banks, intended to promote high standards of behaviour and competence across the UK banking industry.

Key recommendations of the Lambert Report include that the BSRC should:

- develop a single, principles-based code of practice that will provide a template for the whole banking industry;
- identify areas of banking activity where statutory regulation is either not appropriate or not possible and develop voluntary standards of good practice for these areas;
- conduct regular assessments on each bank's performance under the headings of culture, the competence and development of the workforce, and outcomes for customers; and
- publish an annual report intended to measure the progress of banks and building societies in winning public trust.

Participation in the BSRC is optional for banks operating in the UK, and CYBG Group is not a participating bank as at the date of this Prospectus. However, if CYBG Group were to become a member in the future, it may incur costs in order to conform to any applicable codes of practice set out by the BSRC. It may also be subject to negative publicity if it were to fail to meet any of the voluntary standards imposed by the BSRC.

Banking Lending Practices Review

On 25 November 2013, Dr Lawrence Tomlinson, Entrepreneur in Residence at the Department for Business, Innovation and Skills ("**BIS**"), published his independent report into banks' lending practices: treatment of businesses in distress (the "**Tomlinson Report**"). The Tomlinson Report was commissioned by BIS to look into the behaviour of banks in the period following the financial crisis and related bail-outs, to downsize their portfolios and reduce their exposure to bad and higher risk debts. Although acknowledging that this practice is not unreasonable in itself, the Tomlinson Report has identified concerns regarding the strategy of some banks for improving their financial performance where this appears to be having an adverse impact on good and viable businesses. In particular, the Tomlinson Report noted that there was evidence to suggest that there are circumstances in which RBS "is engineering a business into default in order to move the business out of local management and into its turnaround division Global Restructuring Group (GRG)". This practice would generate revenue for RBS through fees, increased margins and the purchase of devalued assets by its property division, West Register. The Tomlinson Report notes that this practice is "not an open and transparent process, nor is it a proportionate response".

On 17 January 2014, the FCA indicated that it was conducting an independent skilled persons report under section 166 of FSMA to examine RBS' treatment of business customers in financial difficulty and consider the allegations set out in the Tomlinson Report. The first stage of the review will consider whether any poor practices identified are widespread and systematic. If this is the case, the second stage of the review will identify the root cause of these issues and make recommendations to address any shortcomings identified. The FCA is expected to publish the outcomes from the review in early 2016. Although commercial lending is not a regulated activity under FSMA, if the findings reveal issues that come within the FCA's remit, the FCA will consider further regulatory measures. The potential impact of implementing any such measures on CYBG Group's business is currently unclear and will depend on the findings of the independent review, but could result in future costs for CYBG Group.

Senior Managers Regime, Certification Regime and Conduct Rules

On 7 July 2015, the FCA and PRA published the final rules confirming their approach to the new individual accountability regime under the Banking Reform Act, which replaces the existing approved person's regime. The final rules cover three areas: the new Senior Managers Regime (the "**Senior Managers Regime**", the Certification Regime (the "**Certification Regime**") and the Conduct Rules (the "**Conduct Rules**"). The new Senior Managers Regime applies to individuals who hold key roles and responsibilities within firms, including executive management, directors and non-executive directors (other than standard non-executive directors who do not act as chairman, senior independent director or chair any committee). The Senior Managers Regime requires such individuals to be pre-approved by regulators, and firms will be required to maintain procedures for the assessment of the fitness and propriety of such individuals before applying for approval and at least annually thereafter.

The Certification Regime applies to staff, other than senior managers, whose decisions could cause significant harm to the firm or its customers (for example, individuals providing mortgage advice). Staff subject to the Certification Regime will not be subject to regulatory pre-approval. However, firms will be required to identify staff subject to the Certification Regime and implement procedures for assessing the fitness and propriety of such staff.

The Conduct Rules set out standards of behaviour that a firm's staff is expected to meet. These rules will replace the existing statements of principle and related codes of practice for approved persons. The Conduct Rules will apply to all non-executive directors, staff falling within the Senior Managers Regime and the Certification Regime from 7 March 2016, the commencement date of the Senior Managers Regime and the Certification Regime, and will expand to apply to other staff from March 2017.

On 15 October 2015, HM Treasury announced that the Bank of England and Financial Services Bill will extend and reform the Senior Managers Regime and the Certification Regime introduced by the Banking Reform Act. The changes will introduce a statutory duty of responsibility that will apply to all senior managers, and will replace the current "reverse burden of proof" with a burden of proof that must be met by the regulator seeking to take action in relation to an individual under to the Senior Managers Regime or the Certification Regime.

As at the date of this Prospectus, the principal consequences of the new rules on the individual accountability regime could result in an increase in CYBG Group's compliance costs, and could have an adverse effect on CYBG Group's ability to recruit new personnel and retain key employees.

46. ***CYBG Group is subject to the potential impacts of UK and European banking and financial services reform initiatives.***

In recent years, the relevant regulatory authorities in the UK and Europe have proposed (and in some cases have commenced implementation of) reforms to a number of aspects of the banking sector, including, among others, institutional structure, resolution procedures, payment services and deposit guarantees. While the impact of these regulatory developments remains uncertain (and indeed some of the specific written proposals are not in final form), CYBG Group expects that the evolution of these and future initiatives could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

Banking Reform Act

The Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"), which implements the measures recommended by Sir John Vickers' Independent Commission on Banking (the "**ICB**"), received Royal Assent on 18 December 2013. The UK Government has completed some of the secondary legislation required under the Banking Reform Act, including The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 and The Financial Services and Markets Act 2000 (Ring fenced Bodies and Core Activities) Order 2014, in July 2014. The remaining secondary legislation and the PRA/FCA rules required in connection with the Banking Reform Act are expected to be finalised by the first half of 2016. Banks will be expected to have implemented reforms by 1 January 2019 at the latest.

The Banking Reform Act introduces a number of measures which could adversely impact CYBG Group's business, including: (i) a new bail-in option through an amendment to the Banking Act (which has since been further amended to align with the bail-in tool as set out in the BRRD) for resolving failing banks (in addition to the other stabilisation options provided for pursuant to the Banking Act) pursuant to which the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity), transfer some or all of the securities of a bank to an appointed bail-in administrator and/or cancel, modify or change the form of any other liabilities owed by the bank (other than specific excluded liabilities); (ii) a ring fence around certain deposits held by UK banks with the aim of separating certain core banking services critical to individuals and SMEs from wholesale and investment banking services. The ring-fencing regime will be established primarily through amendments to FSMA (and, in particular, the addition of a new Part 9B (Ring-fencing) to FSMA) and further detailed rules made by HM Treasury, the PRA and the FCA to give effect to the recommendations of the ICB on ring-fencing requirements for the banking sector (it is anticipated that CYBG Group will not be impacted by certain requirements under the ring-fencing regime since the entire CYBG Group is within one "ring-fenced"); (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution; and (iv) an amendment to the Insolvency Act 1986 to provide for preferential ranking of insured depositors on a winding-up, such that those deposits rank ahead of all other unsecured creditors. The Insolvency Act 1986 has since been further amended by The Banks and Building Societies (Depositor Preference and Priorities) Order 2014, which provides for preferential ranking (behind insured depositors but ahead of other creditors) on a winding-up of: (a) eligible deposits in excess of the FSCS-insured amount; and (b) deposits made through non-EEA branches of EEA credit institutions (but only if such deposits would have been insured deposits if made through an EEA branch of the relevant credit institution).

In October 2015, the PRA published a consultation paper on the implementation of ring fencing rules in the UK which covered prudential requirements, intra-group arrangements and the use of financial market infrastructures. The PRA proposes rules requiring a ring-fenced bank and entities in its ring-fenced sub-group not to make distributions to group entities that are not in the ring-fenced sub-group unless reasonable notice has been given to the PRA of the intention to make the distribution. The proposed rules would enable the PRA to monitor intended distributions from a ring-fenced bank or entity in its ring-fenced sub-group, evaluate the impact of these payments on the ring-fenced bank's ability to continue to meet regulatory capital requirements on an individual and sub-consolidated basis and, as appropriate, prevent such distributions by imposing a requirement that adequate capital resources are maintained. However, provided these regulatory requirements are satisfied, the PRA does not intend to require changes to a ring-fenced bank's dividend policy, or that of its ring-fenced bank sub-group.

At the European level, following the report of the Liikanen Group, which was published in October 2012, a proposed regulation on structural reform in the banking sector, which covers similar areas to some of those contained in the Banking Reform Act was published by the European Commission. There are ongoing discussions within the European Council and Parliament about the proposals for structural reform, and the regulation may be subject to further amendments. In addition to the bail-in tools described above, see "*CYBG Group is subject to substantial and changing prudential regulation*" above in respect of the BRRD.

MiFID II

On 15 May 2014, the European Parliament and European Council adopted a directive (Directive 2014/65/EU) and associated regulation (Regulation 600/2014) on markets in financial instruments (together "**MiFID II**"), which will repeal and recast the existing Directive 2004/39/EC on markets in financial instruments. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase regulation of commodities business and introduce new rules for third country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements) and introduces new investor protection measures including product governance requirements.

MiFID II entered into force on July 2014, however the majority of the provisions will only apply from January 2017. There is a possibility (following European Commission statements in November 2015) that application could be further delayed to 2018. Final regulatory and implementing technical standards and guidelines regarding the implementation of various provisions are expected to be published by ESMA and the European Commission during the course of 2016. Member states are also expected to transpose national implementation measures by July 2016.

These new requirements could increase the cost of distributing financial products to both retail and wholesale clients and increase the risk of non-compliance. This could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

Payment Services

In July 2013, the European Commission adopted a legislative package relating to the UK payments framework including a proposal for a Directive on payment services in the internal market and amending Directives 2002/65/EC, 2013/36/EU and 2009/110/EC and repealing the Payments Services Directive (2007/64/EC) (**PSD**) ("**PSD2**"); and a proposal for a regulation on interchange fees for card-based payment transactions (the "**MIF Regulation**").

PSD2 is intended to update the existing legal and regulatory framework for payment services in the EEA, broadening its application to capture previously-unregulated payment service providers, and to improve the transparency and security of payment services. On 23 December 2015, the recast PSD2 was published in the Official Journal. PSD2 entered into force on 12 January 2016. From the date of PSD2's publication in the Official Journal, Member States will have two years to introduce the necessary changes in their national laws in order to comply with the new rules. Member States are required to transpose the provisions of PSD2 into national law by January 2018.

On 19 December 2014, EBA published its final guidelines on the security of internet payments. The guidelines set minimum security requirements that EU payment service providers were expected to have implemented by 1 August 2015 in respect of internet payments including, among other things, customer authentication requirements and the storage of sensitive payment data. The FCA advised the UK market in March 2014 that it would be requiring compliance with the secure pay recommendations in line with PSD2 transposition, and reconfirmed in May 2015 that it remained of the view that it is reasonable, in all the circumstances, for the detail of the guidelines to be incorporated into its supervisory framework in line with the PSD2 timetable.

The MIF Regulation addresses the European Commission's concerns about the impact of interchange fees charged on debit and credit card transactions. It also lays down business rules and other technical requirements that apply to all types of card-based payment transactions. The combined effect of PSD2 and the proposed MIF Regulation would be to introduce maximum levels of interchange fees for transactions based on consumer debit and credit cards and ban surcharges on these types of card. The European Parliament and Council reached political agreement on the Regulation on 17 December 2014 and in January 2015. The MIF Regulation was published in the Official Journal on 19 May 2015 and most of the provisions entered into force on 8 June 2015. Rules capping interchange fees for consumer debit and credit card transactions came into force on 9 December 2015.

As at the date of this Prospectus the introduction of the MIF Regulation is estimated (based on the published maximum levels for interchange fees) to have a negative impact on income for CYBG Group. There is the possibility of further downside income risk, should the UK choose to pursue additional domestic regulatory measures on credit and/or debit card interchange fees, which whilst subject to consultation is not considered likely; or if a more restrictive position is adopted under further amendments to the MIF Regulation; or finalised card scheme (MasterCard and VISA) interchange rates result in lower than anticipated interchange rates across the portfolio. However, at this stage material variances from current planned numbers are not expected, until the relevant provisions and interchange rates are in full force, the full impact of the measures on CYBG Group cannot be fully determined.

Other significant payment services legislation include regulation (EU) 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro (the "**SEPA Migration Regulation**") and Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**").

The SEPA Migration Regulation sought to create an integrated market for electronic payments in Euro, by replacing existing national payment schemes in Euro with pan-European SEPA payment schemes. The new SEPA payment schemes were implemented for Eurozone countries by 2014. The deadline for implementation of these schemes by non-Eurozone countries (including the UK) is 31 October 2016.

The Payment Accounts Directive introduced measures that banks and other payment service providers must comply with including in relation to provision of standard fee information in relation to payment accounts to consumers, facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. The Payment Accounts Directive came into force in September 2014, with Member States being required to transpose its provisions into national law by September 2016.

EMIR

EMIR was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain OTC derivatives contracts to be submitted to central clearing and imposes, inter alia, margin posting and other risk mitigation techniques, reporting and record keeping requirements. CYBG Group is subject to reporting obligations which are already in force. The clearing and margin requirements are being phased in and CYBG Group will be subject to these requirements in relation to those classes of derivatives that are declared to be subject to the clearing obligation. In addition, CYBG Group will have a significant volume of counterparty and operational risk with NAB due to NAB acting as CYBG Group's sole clearing provider, on an arm's-length basis, for central clearing of a high volume of derivative transactions through LCH.Clearnet Limited.

Small and Medium Sized Business (Finance Platforms) Regulations

In February 2015, the Department for Business, Innovation & Skills published a draft version of the Small and Medium Sized Business (Finance Platforms) Regulations. These regulations came into force on 1 January 2016. The regulations, which are intended to assist small and medium sized businesses who are unsuccessful in obtaining financing from credit institutions to seek funding from alternative lenders, require credit institutions above a certain market threshold to provide specified information about unsuccessful finance applications of such businesses to designated online finance platforms which can be accessed by alternative lenders who meet certain conditions. In its August 2014 statement, the UK Government indicated that it intends to designate CYBG Group as one of the credit institutions which will be required to provide credit information under these regulations, which may create additional loan processing costs for CYBG Group.

IMD2

In July 2012, the European Commission published a proposal for the revision of the Insurance Mediation Directive (2002/92/EC) which established an EU-wide supervisor regime for intermediaries involved in the promotion, sale and administration of certain insurance products. The recast Insurance Mediation Directive ("**IMD2**") expands the scope of the Insurance Mediation Directive to cover sales of all insurance products and *inter alia*, (i) introduces more stringent advertising and disclosure requirements (in particular in relation to bundled products); (ii) introduces rules covering the management of conflicts of interest; and (iii) introduces rules covering the disclosure of remuneration received by insurance intermediaries. IMD2 is expected to have a more limited impact on the UK intermediary regime than in other European jurisdictions as the UK intermediary regime already incorporates a number of the requirements proposed by IMD2.

The proposals in IMD2 may increase the regulatory compliance costs for CYBG Group in implementing the new regulations. However, the proposals remain subject to change and until the relevant provisions are in force, the full impact of the measures on CYBG Group cannot be ascertained. Member States will have until early 2017 to implement the IMD2 requirements into national law. The proposals are due to be discussed, and approved if appropriate, by a plenary session of the European Parliament.

Financial services compensation scheme and depositor guarantee scheme

The UK Financial Services Compensation Scheme (the "**FSCS**") pays compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. As well as compensating customers when regulated firms fail, the FSCS's aim is to promote confidence in the financial system by limiting the system risk that the failure of a single firm might trigger a wider loss of confidence in the relevant financial sector. The levels of compensation are: (i) for retail and small corporate deposits, 100 per cent. of the first £85,000 (this limit was reduced to £75,000 on 31 December 2015); (ii) for large corporate and small local authority deposits, 100 per cent. of the first £75,000; (iii) for investment business (including mortgage advice and arranging) 100 per cent. of the first £50,000; and (iv) for insurance firms declared to be in default after 3 July 2015, 90 per cent. of the claim with no upper limit (except that claims that arise in respect of a liability subject to compulsory insurance or to professional indemnity insurance is protected in full; no protection is available for goods in transit, marine, aviation and credit insurance and contracts of reinsurance).

CYBG Group is responsible for contributing to the FSCS. The amount charged in CYBG Group's accounts to meet its obligations to the FSCS was £11 million for the year ended 30 September 2013, £13 million for the year ended 30 September 2014 and £14 million for the year ended September 2015. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material adverse effect on CYBG Group's business, financial condition and results of operations.

The new EU directive on deposit guarantee schemes ("**DGSD**") was adopted by the European Parliament and European Council in April 2014 and implemented into national law by the Deposit Guarantee Schemes Regulations 2015 and certain amendments made to the PRA's depositor protection rules. DGSD introduces requirements on banks to contribute to their national deposit guarantee scheme at least annually and to have reached a target pre-funded level of at least 0.8 per cent. of deposits covered by the DGSD held by the relevant bank by 3 July 2024. In cases where this pre-funded level is insufficient to cover payments to depositors, the deposit guarantee scheme will collect immediate post event contributions from the banking sector and, as a last resort, will have access to alternative funding arrangements such as loans from third parties. In October 2014, the PRA published a consultation paper setting out its proposed new rules to implement the DGSD. The consultation closed on 6 January 2015 (and a second consultation closed on 27 February 2015) and the PRA published its policy statement and final rules in May 2015 and the rules came into effect in July 2015. The new rules make provision for, amongst other things, post event levies with access to funds collected from the UK bank levy (as discussed further in Part 10: "*Supervision and Regulation*"), changes to the UK FSCS which introduced, from 3 July 2015, temporary high balance deposit protection up to £1 million (an increase to the current £75,000 / £85,000 deposit protection limit as applicable (which is currently considered equivalent to €100,000)) for up to six months for certain types of deposits, and increased speed of pay-out. The new rules are intended to enable depositors protected by the FSCS to have continuity of access to their accounts during resolution, as well as changes to the existing Single Customer View ("**SCV**") rules. Key changes include most depositors now being eligible for protection as opposed to previous PRA rules where only retail deposits and deposits of small corporates are eligible for protection by the FSCS; all firms will be required to produce SCV files in a shortened time period for verification purposes and in the event of default; and firms will be required to update their SCV systems and mark eligible deposits in a way that allows immediate identification of them. Several DGSD disclosure requirements apply to firms as of 1 January 2016, and the rules on SCV and Continuity of Access will take effect from 1 December 2016.

It is possible, as a result of the new directive and subsequent UK implementation, that future FSCS levies on CYBG Group may differ from those at present, and such reforms could result in CYBG Group incurring additional costs and liabilities, which may have a material adverse effect on its profitability.

It is difficult to predict the financial obligations that may be imposed on CYBG Group pursuant to MiFID II, the BRRD, the EU DGSD, the PSD2, the MIF Regulation or the proposed guidelines on the security of internet payments or the effect that these proposed changes may have on CYBG Group's operations, businesses or prospects. However, depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on CYBG Group's operations, structure, costs and/or capital requirements.

Incremental tax reporting

On 18 March 2015, fundamental changes to the current system of tax deduction at source were announced, including the introduction of digital tax accounts from April 2016. Limited details are currently available; however, it is expected that banks and other financial institutions will be required to change their current reporting processes, and substantial cost will be associated with any such change.

Immigration Bill

The UK Government introduced a new immigration bill in the Queen's Speech 2015. The new bill will include a series of measures to control immigration and to do more to target illegal migration. The proposals include extending the current requirements introduced on banks last year in the Immigration Act creating a further obligation to check legacy books and take action should accounts for individuals residing illegally in the UK be identified. Compliance with the bill should it be passed into law could create additional costs for CYBG Group.

New FCA and PRA Remuneration Rules

Following previous consultations, the FCA and the PRA issued new remuneration rules on 23 June 2015 that are designed to better balance risk and reward in banking. Key changes include extending current deferral and clawback requirements, banning non-executive directors from receiving variable remuneration, and providing clarifying guidance on meeting PRA Remuneration Code ex-post risk adjustment requirements. Variable remuneration buy-out options are to be further considered. Provisions in respect of clawback and deferral apply for variable payments on or after 1 January 2016, with other requirements having become applicable from 1 July 2015. Any such changes may make it more difficult for CYBG Group to recruit and retain employees.

Electronic Signatures Regulation

Regulation 910/2014 on e-identification and trust services for electronic transactions in the internal market (the "**Electronic Signatures Regulation**") establishes a legal framework for electronic signatures, electronic seals, electronic time stamps, electronic documents, electronic registered delivery services and certificate services for website authentication. The Electronic Signatures Regulation sets the conditions under which Member States recognise means of electronic identification of natural and legal persons falling under another member state's electronic identification scheme which has been notified to the European Commission.

The provisions of the Electronic Signatures Regulation will apply in Member States (with some exceptions) on 1 July 2016. The potential impact of implementing the provisions of the Electronic Signatures Regulation on CYBG Group's business is currently unclear and is still being assessed, but could result in future costs.

47. ***CYBG Group is subject to substantial and increasing industry-wide regulatory and governmental oversight.***

In addition to the promulgation of new legislation and regulation, the UK Government, the PRA, the FCA and other regulators in the UK, the European Union and overseas have in recent years become substantially more active in their application and monitoring of certain regulations and they may intervene further in relation to areas of industry risk already identified, or in new areas, which could affect CYBG Group.

Areas where regulatory changes have resulted, or could result, in increased compliance cost for CYBG Group include, but are not limited to:

- general changes in UK Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence investor decisions in particular markets in which CYBG Group operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;

- external bodies applying or interpreting standards or laws differently to those applied by CYBG Group;
- one or more of CYBG Group's regulators intervening to mandate the pricing of certain of CYBG Group's products as a consumer protection measure;
- one or more of CYBG Group's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- changes in competitive and pricing environments, including changes to interchange fees receivable on debit and credit card transactions;
- further requirements relating to financial reporting, corporate governance, conduct of business and employee remuneration;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- changes to the legislative framework relating to pension schemes imposing increased liabilities or increased financial commitments;
- changes to the legislative framework to increase the obligations on banks to identify tax evasion by customers;
- changes to the legislative framework to increase the obligations on banks to prevent illegal immigrants utilising the banking system;
- CMA market studies or investigations, FCA market studies or PSR market studies potentially resulting in a range of measures, including behavioural and/or structural remedies in addition to the costs of responding to the studies and investigations themselves;
- high implementation costs, including for example readiness for compliance with the common reporting standard;
- changes in business strategy, particularly impacting the rate of growth of the business; and
- changes to conditions imposed on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

CYBG Group, in common with much of the UK and European financial services industry, continues to be the focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations, enhanced regulatory requirements and increased costs to comply with regulatory reporting requirements. As a result, regulatory risk will continue to require senior management attention and consume significant levels of business resources. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory co-ordination, may adversely affect CYBG Group's business, capital and risk management strategies and/or may result in CYBG Group deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

The Select Committee published in March 2015 its report on conduct and competition in SME, which has created further uncertainty including in relation to our position relating to complaints and redress from historic sales of financial products. See "*CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*" above for further information.

The changing political and regulatory landscape may result in increased political pressure for further restrictions or additional regulatory oversight of retail banks. The nature of any such changes and the potential effects on CYBG Group's business is to some extent uncertain.

CYBG Group continually assesses the impacts of legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by the various regulatory and other bodies. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way that CYBG Group conducts business, although uncertainty remains about the details, impact and timing of these reforms. CYBG Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to CYBG Group and its stakeholders.

New Payment Systems Regulator

The Banking Reform Act introduced a new PSR. The PSR is a competition-focused, utility-style regulator for retail payments systems. The roles, responsibilities and powers of the regulator have been established by the Banking Reform Act. The PSR was officially launched in April 2015 and exercises regulatory oversight functions over payment systems and the financial institutions that participate in them. It has wide powers to, for example, amend agreements relating to access to payment systems, order disposal of interests in the operator of a payment system, require banks to enter into agreements with smaller institutions to process transactions on their behalf, and investigate and impose fines or other sanctions in respect of breaches of its rules. CYBG Group expects to incur costs related to its compliance with relevant PSR requirements.

In March 2015, the PSR announced market reviews into (i) the supply of indirect access to payment systems (the "**Indirect Access Review**"), and (ii) how infrastructure is provided for certain payment systems in the UK (the "**Infrastructure Review**"), and issued terms of reference to that effect. The Indirect Access Review is focusing on developing a deeper understanding of the economics of the supply of indirect access generally and understanding what factors limit the degree of choice available to different types of indirect payment systems providers ("**PSPs**"). The scope of the review includes services provided to all types of PSP. The PSR intends to consider a number of issues as part of the review, including:

(a) the implications for competition arising from the structure of the market (including the characteristics of indirect access); and

(b) the initial and ongoing elements involved in providing indirect access, as well as risks associated with providing services across different types of indirect PSPs.

The Infrastructure Review is focusing on a number of issues, including:

(a) whether the payments infrastructure works in the interests of users of the payment systems; and

(b) whether or not current infrastructure ownership arrangements and market structure restrict competition or innovation.

To date, the PSR has received a number of responses to its draft terms of reference in relation to the Indirect Access Review, and, in June 2015, published the final terms of reference in relation to the Infrastructure Review. In relation to the Indirect Access Review, the PSR expects to publish an interim report in the first quarter of 2016 and a final report by May 2016. In relation to the Infrastructure Review, the PSR expects to publish an interim report in early 2016 and a final report in the summer of 2016. If the PSR concludes there is a need to carry out actions to improve the market, it expects this will take a further six months to implement such actions.

As at the date of this Prospectus, it is difficult to assess the impact of the reviews on CYBG Group until the reviews have been completed. A principle impact could be that any enhancements to the market and its infrastructure could increase competition in the payments market.

48. ***CYBG Group must comply with data protection regulations.***

CYBG Group is subject to regulation regarding the use of personal data. CYBG Group processes personal customer, employee and other data as part of its business and therefore must comply with strict data protection and privacy laws. CYBG Group seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third-party service providers, and also implements security measures to help prevent cyber-theft. Notwithstanding such efforts, CYBG Group is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection laws. By way of example in August 2014 CYBG Group's personal customer data had been disclosed to NAB and subsequently disclosed to the Australian Prudential Regulation Authority potentially in contravention of data protection legislation. Whilst confirmation was received that the data had been destroyed and procedures have since been put in place to prevent the recurrence of such event in future, there can be no assurance that such procedure will prove adequate and that further breaches of data protection laws would not reoccur.

If CYBG Group or any of the third-party service providers on which it relies failed to store or transmit customer information in a secure manner, or if any loss or wrongful processing of personal customer data were otherwise to occur, CYBG Group could be subject to investigative and enforcement action by relevant regulatory authorities, could be subject to claims or complaints from the person to whom the data relates, or could face liability under data protection laws. Any of these events could also result in reputational damage, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

UK data protection law is likely to be subject to material change in the medium term. In 2012 the European Commission published a proposal for a new General Data Protection Regulation ("**GDPR**"), which would replace the current UK Data Protection Act 1998 (and the equivalent laws in other EU and EEA Member States) with an EU regulation having direct effect in the UK and all other EU and EEA Member States. The European Commission, European Parliament and the Council of Ministers agreed the GDPR on 15 December 2015. The GDPR is likely to increase compliance requirements and includes significant financial penalties of up to 4 per cent. of the annual worldwide turnover of company groups. Firms will have two years from the adoption of the GDPR to implement all the necessary changes to their systems and operations in order to meet the new compliance requirements. The GDPR is likely to increase the regulatory burden on CYBG Group in processing personal customer, employee and other data in the conduct of its business and may also increase the potential sanctions for breach.

49. ***CYBG Group must comply with anti-money laundering, anti-bribery and sanctions regulations.***

CYBG Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit CYBG Group, its employees or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. 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, CYBG Group 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. Although the Directors believe that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by CYBG Group's employees, for which CYBG Group might be held responsible. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing amending and replacing Directive 2005/60/EC (known as Money Laundering Directive 3) and a regulation on information accompanying transfer of funds to secure due traceability of these transfers. Reforms to Money Laundering Directive 3 (known as Money Laundering Directive 4) have been enacted and came into force on 25 June 2015. The reforms contained in Money Laundering Directive 4 may increase the regulatory compliance costs for CYBG Group in implementing the new regulations.

50. ***As a result of any of the foregoing risks, CYBG Group may be subject to the provisions of the Banking Act in the future.***

Under the Banking Act, substantial powers have been granted to HM Treasury, the Bank of England (including the PRA) and the FCA (together, the "**Authorities**") as part of the special resolution regime (the "**SRR**"). In Europe, BRRD has introduced a package of minimum early intervention and resolution related tools and powers for relevant authorities and provided for special rules for cross-border groups. The BRRD is being implemented in the UK by means of new statutory instruments and amendments to the Banking Act. See "*CYBG Group is subject to substantial and changing prudential regulation*" above for further information.

These powers enable the Authorities to engage with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV FSMA that are failing or are likely to fail to satisfy FSMA's threshold conditions (within the meaning of section 55B FSMA). The SRR consists of five stabilisation options, which could be imposed on any bank, including CYBG Group, that fails, or is likely to fail, to meet FSMA's threshold conditions: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a third-party private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established and wholly owned by the Bank of England; (iii) transfer all or part of the business of the relevant entity or any bridge bank to an asset management vehicle wholly or partly owned by HM Treasury or the Bank of England; (iv) the bail-in option (as described below); and (v) temporary public ownership of the relevant entity. HM Treasury may also take a parent company (such as the Company) of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances. Use of any such powers in the case of a resolution of CYBG Group would impact Shareholders' ongoing holding of Shares, including, but not limited to, potential substantial reductions in the value of such holdings.

The Banking Reform Act and the Bank Recovery and Resolution Order 2014 together amended the Banking Act to introduce the bail-in tool. These amendments establish the bail-in tool as a new stabilisation option available to the Bank of England. The relevant amendments to the Banking Act 2009 came into force in January 2015, and transitional PRA rules on contractual recognition of bail-in for certain debt instruments and unsecured liabilities came into force on 19 February 2015. The final PRA rules on contractual recognition of bail-in for liabilities came into force on 1 January 2016.

In addition to the bail-in tool, amendments introduced to the Banking Act in order to implement the BRRD give the Bank of England a separate power to write down capital instruments of a bank in certain circumstances. This may include circumstances where the relevant credit institution is failing or likely to fail to meet its threshold conditions, in which case this power may be used alongside the stabilisation options; however it can also be used before the relevant credit institution reaches a point where the stabilisation options become available to the Authorities. This allows the Bank of England to cancel, transfer or dilute equity instruments and convert or reduce the amount of subordinated debt instruments.

Pursuant to amendments made to the Banking Act, provision has been made for the stabilisation tools to be used in respect of banking group companies. The Banking Act (Banking Group Companies) Order 2014 which specifies the definition of such companies was made by HM Treasury on 9 July 2014 and entered into force on 1 August 2014. These amendments to the Banking Act allow all of the current stabilisation options under the SRR and the bail-in stabilisation power to be applied to any of CYBG Group's group companies that meet the definition of a "banking group company".

Use of bail-in powers and/or powers to write down capital instruments by the Authorities may result in the issuance of additional share capital or capital instruments, consequently existing shareholders may experience a dilution of their holdings or reduced profitability and returns.

RISKS RELATING TO THE OFFER AND THE SHARES

51. ***There has been no prior trading market for the Shares.***

Prior to the Global Offer, there has been no public trading market for the Shares. The Offer Price will be determined by the Selling Shareholder after consultation with the Managers and CYBG Group and may not be indicative of the market price for the Shares following Admission. Although the Company intends to apply to the FCA for admission of the Shares to the premium segment of the Official List and intends to apply to the London Stock Exchange for admission of the Shares to trading on its main market for listed securities, the Company can give no assurance that an active trading market for the Shares will develop or, if developed, can be sustained following the closing of the Global Offer.

Further, as a result of the Demerger, the majority of current holders of shares in NAB will receive Shares initially through CDIs listed on the ASX. This may result in limited levels of initial liquidity in the trading of the Shares on the London Stock Exchange. In addition, there is a risk that significant numbers of these investors holding interests in the Company through CDIs may sell those interests at or shortly following Admission, which may result in downward pressure on the market price of the Shares and the CDIs and in a reduction in the level of liquidity available in the trading of the CDIs on the ASX.

If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be materially adversely affected.

52. ***The Company is expected to have a shareholder base that will be predominantly based in Australia.***

The Company's initial shareholder base will consist of those shareholders that have received Shares through the Demerger and those that have bought Shares in the Global Offer. 75 per cent. of the Shares will be distributed through the Demerger to current shareholders of NAB, most of whom have registered addresses in Australia and the majority of the Shares will be held, as from a time shortly after Admission, in the form of CDIs traded on the ASX. Those CDIs will be included in indices of companies with securities traded on the ASX. As a consequence, notwithstanding that CYBG Group has no operations in Australia, the price of the Shares may be subject to significant volatility as a result of fluctuations in the prices of securities on the ASX and general economic conditions in Australia and conversely the price of CYBG CDIs may also be subject to volatility as a result of fluctuations in the prices of securities on the London Stock Exchange.

53. ***Significant trading volumes of the Shares or CDIs in the public market in the period post-Demerger could adversely impact the share price.***

Following Admission, there may be a period of relatively high volume trading in the Shares and the CDIs. The Company is unable to predict the trading intentions of the persons who will receive Shares or CDIs through the Demerger. In addition, Sale Facility Shareholders will be eligible to elect to have their CYBG Securities sold by the Sale Agent during a limited period following the Demerger. If substantial amounts of Shares or CDIs are sold in the open market after Admission, whether by the Sale Agent or otherwise or there is a perception that these sales might occur, the market price of the Shares may fall.

54. ***Investors with a reference currency other than pounds sterling will become subject to foreign exchange rate risk when investing in or holding the Shares.***

The Shares are, and any dividends that may be declared in respect of the Shares will be, denominated in pounds sterling. An investment in the Shares by an investor whose reference currency or reporting currency is not pounds sterling exposes the investor to currency exchange rate risk. For example, shareholders holding Shares in the form of CDIs traded on the ASX will be subject to pounds sterling/Australian dollar exchange rate risk. See "*The Company is expected to have a shareholder base that will be predominantly based in Australia*" above. Such currency exchange rate risk may impact the value of an investment in the Shares or any dividends.

55. ***The value of the Shares may fluctuate significantly.***

Following the Global Offer, the value of the Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in these "*Risk Factors*", as well as market appraisal of CYBG Group's strategy or business, differences between CYBG Group's expected and actual financial and operating performance, cyclical fluctuations in the performance of CYBG Group's business, period to period variation in CYBG Group's operating or financial results, and changes in targets established by CYBG Group for, or changes in estimates by CYBG Group for, industry participants or financial analysts of, income, expenses, assets, liabilities, profits/(losses), net interest margin or other margins, returns on equity or assets, dividends, regulatory capital, regulatory ratios, other key performance indicators, market growth or market shares. The market price of the Shares may decrease or increase abruptly, and such volatility may bear little or no relation to CYBG Group's performance. In addition, stock markets have, from time to time, experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to CYBG Group's operating performance and prospects but nevertheless affect the price of the Shares. The market price of the Shares could also be affected by developments unrelated to CYBG Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to CYBG Group, speculation (whether or not well founded) about CYBG Group in the press or the investment community (including regarding the intentions of significant shareholders or significant sales of Shares by any such shareholders or short selling of the Shares), speculation (whether or not well founded) regarding significant issues of Shares by the Company, possible changes in CYBG Group's management team, strategic actions by CYBG Group or competitors (including mergers, acquisitions, divestitures, partnerships and joint ventures), adverse resolution of new or pending litigation or regulatory matters against any member of CYBG Group, unfavourable press, the publication of research reports by analysts, general economic, industry and stock market conditions, changes in market conditions and regulatory changes in the UK or other countries, whether or not CYBG Group derives significant revenue therefrom. Any or all of these factors could result in material fluctuations in the price of Shares, which could lead to investors getting back less than they invested or a total loss of their investment.

Following expiry of any relevant lock-ups commencing on completion of the Global Offer, sales of Shares by any of the Directors in the public market, or sales by the Selling Shareholder of Shares redelivered pursuant to stock lending arrangements entered into in connection with stabilisation, or the perception that such sales may occur, could depress the market price of the Shares and could have a material adverse effect on CYBG Group's ability to raise capital through the issue or sale of additional equity securities.

56. ***There are restrictions on the ability of the Company to pay dividends.***

CYBG Group's results of operations and financial condition are dependent on its trading performance and the trading performance of the members of CYBG Group. As a matter of applicable company law, the Company may only pay dividends if and to the extent that, among other requirements, it has distributable reserves and sufficient cash available for this purpose. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, applicable law, regulation, restrictions, CYBG Group's financial position, regulatory capital requirements, working capital requirements, finance costs, dividend policy, general economic conditions and other factors the Directors deem significant from time to time. The Company's ability to pay dividends will also depend on the level of distributions, if any, received from its operating subsidiaries and regulatory restrictions in relation to the extent to which it can distribute its distributable reserves. As a result, there can be no assurance that the Company will pay dividends in the future.

57. ***The issue of additional Shares in the Company in connection with the conversion of future Additional Tier 1 Securities (including the New AT1 Notes) issued by CYBG Group into Shares may dilute other shareholdings in the Company.***

CRD IV rules allow CYBG Group to issue Additional Tier 1 Securities to meet its capital requirements. Additional Tier 1 Securities issued by CYBG Group would be subordinated obligations of CYBG Group but would rank ahead of Shares in any winding-up of the Company. Any such securities issued may, under CRD IV, include a provision whereby if the Common Equity Tier 1 ratio of CYBG Group falls below a specified percentage, any distributions which were accrued and unpaid on the Additional Tier 1 Securities would be cancelled and the Additional Tier 1 Securities would be converted into Shares (depending on the terms of the instrument issued). As a result, the Company's then-existing shareholders could suffer dilution in their percentage ownership upon any conversion of convertible securities such as Additional Tier 1 Securities or similar securities issued by CYBG Group into Shares.

The New AT1 Notes include a provision that if the Common Equity Tier 1 ratio of CYBG Group (calculated without applying the CRD IV transitional provisions) falls below 7 per cent., the New AT1 Notes automatically convert into Shares at a conversion price equal to 66 per cent. of the Offer Price (subject to adjustments in certain circumstances in the event of any consolidation, reclassification, subdivision in relation to the Shares, bonus issues, rights issues or extraordinary dividends). As a result, the Company's then-existing shareholders could suffer a dilution of their percentage ownership upon such conversion. However, the terms and conditions of the New AT1 Notes include a mechanism to give the Company's then-existing shareholders the opportunity to purchase the Shares issued on such conversion, on a pro rata basis, where practicable (at the Company's discretion) and subject to applicable laws and regulations, at a price equal to the then conversion price of the New AT1 Notes (which may be higher, equal or lower than the then market price of the Shares). The terms of the proposed New AT1 Notes and further information on the arrangements between NAB and CYBG Group relating thereto are set out in Part 14: "*Additional Information – Material Contracts – Demerger Deed – Arrangements between NAB and CYBG Group after separation and intentions of NAB and the Company to further separate capital relationship*".

58. ***The issue of additional shares in the Company in connection with the termination of the Capped Indemnity, future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.***

CYBG Group may seek to raise financing to fund future acquisitions and other growth opportunities. The Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. The Company's existing shareholders would suffer dilution in their percentage ownership if they were not to participate in any such issues pro rata to their existing holdings.

In certain circumstances, the Company may also undertake a Share issuance at market value in the context of the termination of the Capped Indemnity which would be likely to dilute the Company's existing shareholders:

- (i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or (ii) the Unutilised Indemnity Amount, is £100 million or less, in which case NAB will have the right (subject to the agreement of the PRA) to terminate the Capped Indemnity by subscribing for Shares at market price in an amount equal to the Unutilised Indemnity Amount provided that value of the Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**£100 million Termination**"); or
- NAB and the Company agree arrangements to terminate or replace the Capped Indemnity (with the consent of the PRA). In particular, NAB and the Company have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary thereafter), seek to agree

arrangements to terminate or replace the Capped Indemnity. The Company cannot unreasonably withhold its agreement to a proposal made by NAB pursuant to such discussions involving the Capped Indemnity being replaced by a payment equal to the Unutilised Indemnity Amount to be applied (in whole or in part) in subscribing for Shares at market price, provided that the maximum value of the Shares to be subscribed for would not exceed £200 million or if lower, a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**Post-5 Year Equity Subscription Termination**").

It would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the Listing Rules nor to obtain shareholder authority under the Companies Act to allot Shares to NAB, in order to implement a £100 million Termination. If the Company and NAB agree, with the PRA's consent, to terminate the Capped Indemnity pursuant to a Post-5 Year Equity Subscription Termination, it would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the Listing Rules (unless, in the case of Chapter 11, such arrangements are subject to material amendment) nor to obtain shareholder authority under the Companies Act to allot Shares to NAB, in order to implement a Post-5 Year Equity Subscription Termination.

If the Capped Indemnity is terminated, dilution of the Company's existing shareholders is expected to occur. The potential magnitude of any dilution is dependent on (i) the level of NAB's remaining potential exposure under the Capped Indemnity at the time the Capped Indemnity is terminated; and (ii) the extent to which the Unutilised Indemnity Amount is replaced by the subscription by NAB of Shares and the price at which NAB subscribes for the new Shares.

59. ***Shareholders outside the UK may not be able to participate in future equity offerings.***

The Articles of the Company provide for pre-emptive rights for Shareholders in the Company, unless such rights are disapplied by a Shareholder resolution. However, securities laws of certain foreign jurisdictions (including Australia) may restrict the Company's ability to allow participation by Shareholders in future offerings. Further, while in deciding whether to make any future offerings and what the most appropriate form of any offering may be the Directors will have regard to Shareholders' interests, there can be no guarantee that all Shareholders will be able to participate in all or any such offerings. In particular, Shareholders in the United States may not be entitled to exercise these rights unless either the rights and Shares are registered under the Securities Act, or the rights and Shares are offered pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

60. ***Payments on the Shares may be subject to U.S. withholding tax under FATCA.***

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain payments made by entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the United Kingdom (the "**IGA**"). Under the IGA, as currently drafted, the Company does not expect payments made on or with respect to Shares to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to Shares in the future. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA.

GLOBAL OFFER STATISTICS

The Global Offer statistics in this document are subject to change.

Number of Shares expected to be in issue following completion of the Demerger, the Global Offer and Admission	879,315,256
Number of Sale Shares in the Global Offer	191,155,491
Percentage of issued share capital being offered as Sale Shares	21.7%
Number of Shares subject to the Over-allotment Option(1)	28,673,323
Percentage of issued share capital subject to the Over-allotment Option	3.3%
Expected market capitalisation of the Company at the Offer Price	£1,582.8 million
Estimated net proceeds receivable by the Selling Shareholder, after expenses(2)	£363.7

(1) The number of Shares subject to the Over-allotment Option is, in aggregate, equal to 15 per cent. of the total number of Sale Shares in the Global Offer.

(2) The Company will not receive any of the net proceeds from the sale of the Sale Shares in the Global Offer. The estimated net proceeds receivable by the Selling Shareholder assuming the Over-allotment Option is exercised in full and are stated after deduction of the estimated underwriting commissions, stamp duty or SDRT and other cash fees and expenses of the Global Offer (including VAT) payable by the Selling Shareholder, which are currently expected to be approximately £32 million.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the expected timetable of principal events below and mentioned throughout this document are subject to change without notice. References to a time of day are to London time (unless stated otherwise).

NAB Extraordinary General Meeting to vote on the Demerger	8.00 a.m. on 27 January 2016 (AEDT)
Scheme Effective Date	8.00 a.m. on 2 February 2016 (AEDT)
Announcement of Offer Price and allocation	8.00 a.m. on 3 February 2016
Commencement of conditional dealings in the Shares[1]	8.00 a.m. on 3 February 2016
CDIs representing the Shares commence trading on the ASX on a deferred settlement basis	4 February 2016 (AEDT)
Demerger Date	8.00 a.m. on 8 February 2016 (AEDT)
Admission and commencement of unconditional dealings in the Shares	8.00 a.m. on 8 February 2016
Shares credited to CREST accounts	8.00 a.m. on 8 February 2016
Commencement of Sale Period for the Shares under the Sale Facility	8 February 2016
Commencement of Sale Period for CDIs under the Sale Facility	8 February 2016 (AEDT)
Despatch of definitive share certificates (where applicable)	8 February 2016[2]
Commencement of trading of CDIs on the ASX on a normal settlement basis	17 February 2016 (AEDT)

(1) It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

(2) Or as soon as practicable thereafter.

IMPORTANT INFORMATION

1. General

Investors should only rely on the information in this document. No person has been authorised to give any information or to make any representations in connection with the Global Offer, other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors, the Selling Shareholder or any of the Managers. No representation or warranty, express or implied, is made by any of the Managers or any selling agent as to the accuracy, completeness or verification of such information, and nothing contained in this document is, or may be relied upon as, a promise or representation by any of the Managers or any selling agent as to the past, present or future.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, neither the delivery of this document nor any sale of Shares pursuant to the Global Offer will, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or CYBG Group since the date of this document or that the information contained herein is correct as of any time subsequent to its date.

The Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offer or CYBG Group. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

The Company will update information provided in this document by means of a supplement hereto if a significant new factor that may affect the ability of prospective investors to make an informed assessment of the matters set out in section 87(A)(2) of FSMA occurs prior to Admission or if this document contains a material mistake or inaccuracy. This document and any supplement thereto will be made public in accordance with the Prospectus Rules.

In the event the Company is required, prior to Admission, to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, investors will have a statutory right pursuant to section 87Q of FSMA to withdraw their acceptance to purchase Shares in the Global Offer made prior to the publication of the supplement, Such withdrawal rights must be exercised within the time limits set out in the supplement (if any), which shall not be shorter than the period of two working days beginning with the first working day after the date on which the supplementary prospectus was published.

None of the Company, the Selling Shareholder or the Managers, or any of their respective representatives, is making any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult its, his or her own independent lawyer, financial adviser, tax adviser or other advisers for legal, financial, business or other related advice. In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Global Offer, including the merits and risks involved.

This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Directors, the Selling Shareholder or any of the Managers or any of their representatives that any recipient of this document should purchase the Shares. Prior to making any decision as to whether to purchase the Shares, prospective investors should read this document. Investors should ensure that they read the whole of this document and not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination, analysis and enquiry of the Company and the terms of this document, including the risks involved.

Investors who purchase Shares in the Global Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Managers or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this document or their investment decision; and (ii) they have relied on the information contained in this document, and no person has been authorised to give any information or to make any representation concerning the Company, CYBG Group or the Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors, the Selling Shareholder or any of the Managers.

None of the Company, the Directors, the Selling Shareholder or any of the Managers or any of their representatives is making any representation to any offeror or purchaser of the Shares regarding the legality of an investment by such offeror or purchaser.

2. Presentation of certain financial and other information

2.1 *Historical Financial Information*

CYBG Group's consolidated Historical Financial Information in this Prospectus has been prepared in accordance with IFRS as adopted by the EU and in accordance with the Prospectus Directive Regulation and the Listing Rules. The basis of preparation is further explained in the Historical Financial Information.

Ernst & Young LLP has reported, in accordance with Statements of Investment Reporting Standards issued by the Auditing Practices Board in the United Kingdom, on the Historical Financial Information as of and for the years ended 30 September 2012, 2013, 2014 and 2015 included in Section B of the Historical Financial Information, as stated in their accountant's report included in Section A of the Historical Financial Information.

Unless otherwise stated in this Prospectus, financial information in relation to CYBG Group referred to in this Prospectus has been extracted or derived without material adjustment from the audited Historical Financial Information or has been extracted or derived from those of CYBG Group's accounting records and its financial reporting and management systems that have been used to prepare that financial information. Investors should ensure that they read the whole of this document and not only rely on the key information or information summarised within it. See "*Risk Factors – CYBG Group's financial performance as set out in its Historical Financial Information may not in all respects be indicative of its future performance as an independent, publicly listed company*" above, for additional information on the risks relating to CYBG Group's Historical Financial Information in this document.

Except as indicated, none of the financial information relating to CYBG Group or any operating data or key performance indicators relating to CYBG Group have been audited (even where such operating data or key performance indicators include certain financial metrics).

None of the financial information used in this Prospectus has been audited in accordance with auditing standards generally accepted in the United States of America ("**US GAAS**") or auditing standards of the Public Company Accounting Oversight Board (United States) ("**PCAOB**"). In addition, there could be other differences between the auditing standards issued by the Auditing Practices Board in the UK and those required by US GAAS or the auditing standards of the PCAOB. Potential investors should consult their own professional advisers to gain an understanding of the Historical Financial Information and the implications of differences between the auditing standards noted herein.

2.2 *Pro Forma Financial Information*

In this Prospectus, any reference to "pro forma" financial information is to information that has been extracted without material adjustment from the unaudited pro forma financial information contained in Part 9: "*Unaudited Pro Forma Financial Information*" (the "**Pro Forma Financial Information**"). The unaudited Pro Forma Financial Information contained in Part 9: "*Unaudited Pro Forma Financial Information*" is based on the consolidated financial information of CYBG Group for the year ended 30 September 2015 included in Section B of the Historical Financial Information. The unaudited Pro Forma Financial Information of CYBG Group as at 30 September 2015 has been prepared to illustrate the effect of the separation of CYBG Group from NAB, which will result in the settlement of certain intercompany balances and reclassification of balances with related parties as external counterparties for outstanding balances.

The unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not and will not represent CYBG Group's actual financial position or results. It may not, therefore, give a true picture of CYBG Group's financial position or results nor is it indicative of the results that may or may not be expected to be achieved in the future. The Pro Forma Financial Information has been prepared for illustrative purposes only and in accordance with Annex II of the Prospectus Directive Regulation.

2.3 *Non-IFRS financial information*

CYBG Group presents certain key performance indicators that are not defined under IFRS but that it finds useful in analysing its results and that the Directors believe are widely used by investors to monitor the results of banks generally. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides CYBG Group with certain discretion in making its calculations. In addition, CYBG Group presents certain operating data about its operations that do not form part of CYBG Group's accounting records and are not subject to an audit or review process by independent external auditors.

Because of the discretion that CYBG Group and other companies have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other companies. These measures should not be used as a substitute for evaluating the performance of CYBG Group based on its Historical Financial Information prepared in accordance with IFRS.

2.3.1 *Management Basis*

Part 4: "*Selected Financial and Other Information*" and Part 5: "*Operating and Financial Review*" include income statement data on the Management Basis, which the Directors believe provides useful supplemental information to assist in evaluating the operating performance of CYBG Group's business and to facilitate more meaningful period-to-period comparisons for the years ended 30 September 2015, 2014, 2013 and 2012. The Management Basis information includes adjustments to present items that the Directors believe are non-recurring, or otherwise not indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the Historical Financial Information to the Management Basis information presented in Part 4: "*Selected Financial and Other Information – Consolidated Income Statement Data – Reconciliation of the Historical Financial Information to the Management Basis*".

2.3.2 *Key performance indicators and other financial data*

Part 4: "*Selected Financial and Other Information*" and Part 5: "*Operating and Financial Review*" also include certain key performance indicators and other financial data on the Management Basis: net interest margin, return on equity, cost-to-income ratio, return on assets, return on risk-weighted assets and return on tangible equity. The Directors believe these measures are a useful indicator of CYBG Group's operating performance before items that are believed to be non-recurring and not relevant to an assessment of its actual operating performance. These measures are also presented on an unadjusted basis to allow direct comparison. Underlying results and similar measures may be used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing CYBG Group's results on the Management Basis with data of other companies. CYBG Group's results on the Management Basis are not a substitute for operating profit as a measure of operating results or a substitute for cash flow as a measure of liquidity. CYBG Group's results on the Management Basis are not a measure of performance under IFRS. For the reconciliation of the Historical Financial Information to the Management Basis information, see Part 4: "*Selected Financial and Other Information – Consolidated Income Statement Data – Reconciliation of the Historical Financial Information to the Management Basis*".

2.4 *Average balance sheet and interest rate data*

This Prospectus includes information relating to average balances of interest earning assets and interest-bearing liabilities of CYBG Group, the amounts of interest income and interest expense of CYBG Group and the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for the years ended 30 September 2015, 2014, 2013 and 2012. This information is presented and further described in Part 4: "*Selected Financial and Other Information – Average Balance Sheet and Interest Rate Data*" and elsewhere in this Prospectus. Unless otherwise specified herein, average balances of assets and liabilities for CYBG Group for the years ended 30 September 2015, 2014, 2013 and 2012 were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily (spot) balances. Daily balances for the years ended 30 September 2015, 2014, 2013 and 2012 were extracted from unaudited management information of CYBG Group. The average interest rate for any line item is calculated by dividing interest income or interest expense, as applicable, by the average balance for such line item for the relevant period. Average interest rates in this Prospectus are distinct from the period end effective interest rates discussed in Part 8: "*Historical Financial Information*".

This Prospectus also includes information on changes in interest income or interest expense, which are attributed to either: (i) changes in average balances (volume change) of interest-earning assets or interest-bearing liabilities; or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities. Such information appears in Part 4: "*Selected Financial and Other Information – Changes in Interest Income and Interest Expense – Volume and Rate Analysis*" and elsewhere in this Prospectus. Changes in CYBG Group's interest income and expense have been allocated between changes in average volume and changes in the average rates for the years ended 30 September 2015, 2014, 2013 and 2012. CYBG Group calculates volume and rate variances based on the movements of average balances over the period and changes in average interest rates on interest-earning assets and interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances.

3. Forward-looking Statements

Some of the statements under "*Summary Information*", "*Risk Factors*", Part 2: "*Information on CYBG Group*", and Part 5: "*Operating and Financial Review*" and elsewhere in this Prospectus include forward-looking statements which reflect CYBG Group's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to CYBG Group's business). These forward-looking statements relate to CYBG Group and the sectors and industries in which CYBG Group operates. Statements which include the words "expects", "intends", plans", "believes", "projects", "anticipates", "estimates", "will", "targets", "aims", "may", "should", "would", "could", "continue", "budget", "schedule" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause CYBG Group's actual results to differ materially from those indicated in these statements. These factors include, but are not limited to those described in "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this Prospectus.

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Prospectus speak only as of the date of this Prospectus, reflect the Director's current belief with respect to future events and are subject to risk relating to future events and other risks, uncertainties and assumptions relating to CYBG Group's operations, results of operations, growth strategy, capital and leverage ratios and liquidity. Investors should specifically consider the factors identified in this Prospectus which could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to "*Risk Factors*", Part 2: "*Information on CYBG Group*" and Part 5: "*Operating and Financial Review*".

Subject to any obligations under the Prospectus Rules, the Listing Rules, and/or the disclosure and transparency rules produced by the FCA under Part VI of FSMA and forming part of the FCA Handbook, as from time to time, as amended the ("**Disclosure and Transparency Rules**"), the Company undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, events or circumstances or otherwise. All subsequent written and oral forward-looking statements attributable to CYBG Group or individuals acting on behalf of CYBG Group are expressly qualified in their entirety by this paragraph.

4. No Incorporation of Website Information

The contents of CYBG Group's website, or any other website referred to in this Prospectus, have not been verified and do not form part of this Prospectus, and investors should not rely on such contents.

5. Available Information for US Investors

If and for so long as any of the Shares are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to sections 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of an Share, or to any prospective purchaser of an Share designated by such holder or beneficial owner, upon request of such holder, beneficial owner or prospective purchaser, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

This Prospectus is being furnished by the Company in connection with an offering exempt from the registration requirements of the Securities Act, solely for the purpose of enabling a prospective investor to consider the subscription for or acquisition of Shares described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is being furnished on a confidential basis only to persons reasonably believed to be QIBs in the United States and other eligible persons outside of the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than in considering an investment by the recipient in the Shares offered hereby, is prohibited. Each prospective investor in the Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

6. Rounding of Figures

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, (i) the sum or percentage change of such numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given; and (ii) the sum of the numbers in a column or row in certain tables may not conform exactly with the total figure given for that column or row.

7. Market, Economic and Industry Data

Certain information contained in this Prospectus in Part 1: *"Industry Overview*", Part 2: "*Information on CYBG Group*", Part 5: "*Operating and Financial Review*" and elsewhere in this Prospectus relating to the UK banking industry in which CYBG Group operates as well as certain economic and industry data and forecasts used in, and statements regarding CYBG Group's market position made in, this Prospectus were extracted or derived from third-party reports, market research, government and other publicly available information and independent industry publications, as the case may be, prepared by, *inter alia* the Bank of England, the Office of National Statistics, the British Banking Association ("**BBA**"), Eurostat and other governmental and private bodies.

While the Directors believe the third-party information included herein in Part 1: "*Industry Overview*", Part 2: "*Information on CYBG Group*", Part 5: "*Operating and Financial Review*" and elsewhere in this Prospectus to be reliable, they have not independently verified such third-party information, and none of CYBG Group, the Directors or the Managers make any representation or warranty as to the accuracy or completeness of such information as set forth in this Prospectus. CYBG Group confirms that such third-party information has been accurately reproduced, and so far as CYBG Group is aware and is able to ascertain from information available from those publications, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, the accuracy of such third-party information is subject to availability and reliability of the data supporting such information and neither the information nor the underlying data has been independently verified. Additionally, the industry publications and other reports referred to above generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed and, in some instances, these reports and publications state expressly that they do not assume liability for such information. CYBG Group cannot therefore assure you of the accuracy and completeness of such information as it has not independently verified such information.

8. **Customer Reporting**

The reporting of customers by CYBG Group is dependent upon the nature of the relationship of the customers with CYBG Group and can be segmented between business and personal customers, described below.

Personal customer numbers are reported at an individual level based on unique customer numbers. CYBG Group defines personal customers as customers that are with Retail, Private, B2B and Business Direct. Joint account customers are counted separately (i.e. a joint account held by two parties will be classed as two customers).

Smaller sized business customers (with turnover less than £120,000) are reported as unique customers based on analysis of customer reference numbers. Larger sized business customers (with turnover in excess of £120,000) are reported at a connection level. The connection level consolidates customer numbers which are common to an account and groups these to report as one.

9. **Currency Presentation**

In this Prospectus all references to "AUD" or "Australian dollars" are to the lawful currency of Australia, all references to "GBP", "pounds sterling", "£", "pence" or "p" are to the lawful currency of the UK, all references to "USD", "$", "US$" or "US dollars" are to the lawful currency of the US, all references to "€" or "Euros" are to the lawful currency of the Eurozone.

10. **Service of process and enforcement of civil liabilities**

The Company has been incorporated under the laws of England and Wales. Substantially all of the assets of CYBG Group are located outside the United States. Only one of the Directors of the Company is a citizen of the United States; none of the other Directors or officers of the Company are citizens or residents of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons or to enforce outside the United States judgements obtained against the Company or such persons in US courts, including, without limitation, judgements based upon the civil liability provisions of US federal securities laws or the laws of any state or territory within the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the UK. Investors may also have difficulties enforcing, in original actions brought in courts in jurisdictions outside the United States, liabilities under US securities laws and, subject to certain exemptions and time limitations, English courts will treat a final and conclusive judgment of a US court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

11. **References to Defined Terms**

Certain terms used in this Prospectus, including certain capitalised terms and certain technical and other terms, are defined, and certain selected industry and technical terms used in this Prospectus are defined and explained, in Part 15: "*Definitions and Glossary*".

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	James Pettigrew	Chairman, Non-executive Director
	David Duffy	Chief Executive Officer
	Ian Smith	Chief Financial Officer
	Debbie Crosbie	Chief Operating Officer
	David Bennett	Independent Non-executive Director and Deputy Chairman
	Richard Gregory OBE	Senior Independent Non-executive Director
	David Allvey	Independent Non-executive Director
	David Browne	Independent Non-executive Director
	Adrian Grace	Independent Non-executive Director
	Barbara Ridpath	Independent Non-executive Director
	Teresa Robson-Capps	Independent Non-executive Director
	Alex Shapland	Independent Non-executive Director
Joint Company Secretaries	Lorna McMillan and James Peirson	
Registered Office of the Company	20 Merrion Way Leeds LS2 8NZ	
Advisers		
Joint Global Co-ordinator, Joint Bookrunner and Sponsor	Morgan Stanley & Co. International plc 25 Cabot Square London E14 4QA	
Joint Global Co-ordinators and Joint Bookrunners	Merrill Lynch International 2 King Edward Street London EC1A 1HQ	
	Macquarie Capital (Europe) Limited Ropemaker Place 28 Ropemaker Street London EC2Y 9HD	

Joint Bookrunner	J.P. Morgan Securities plc 25 Bank Street London E14 5JP
Co-Lead Managers	RBC Europe Limited Riverbank House 2 Swan Lane London EC4R 3BF Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods, a Stifel company) 7th Floor, One Broadgate London EC2M 2QS
Legal Advisers to the Company and the Selling Shareholder as to English and US law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
Independent Legal Advisers to the Company as to English law	Allen & Overy LLP One Bishops Square London E1 6AD
Legal Advisers to the Selling Shareholder as to Australian law	King & Wood Mallesons Level 50, Bourke Place 600 Bourke Street Melbourne VIC 3000
Legal Advisers to the Managers as to English and US law	Linklaters LLP One Silk Street London EC2Y 8HQ
Auditors and Reporting Accountants to the Company	Ernst & Young LLP 25 Churchill Place London E14 5RE
Registrars	Computershare The Pavillions Bridgewater Road Bristol BS13 8AE

PART 1
INDUSTRY OVERVIEW

The following information relating to the banking industry in the United Kingdom has been provided for background purposes only. The information has been extracted and derived from a variety of sources released by public and private organisations. The information has been accurately reproduced and, as far as CYBG Group is aware, and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. *Investors should read this section in conjunction with the more detailed information contained in this Prospectus, including "Risk Factors", Part 2:"Information on CYBG Group", Part 5:"Operating and Financial Review" and Part 10:"Supervision and Regulation*".

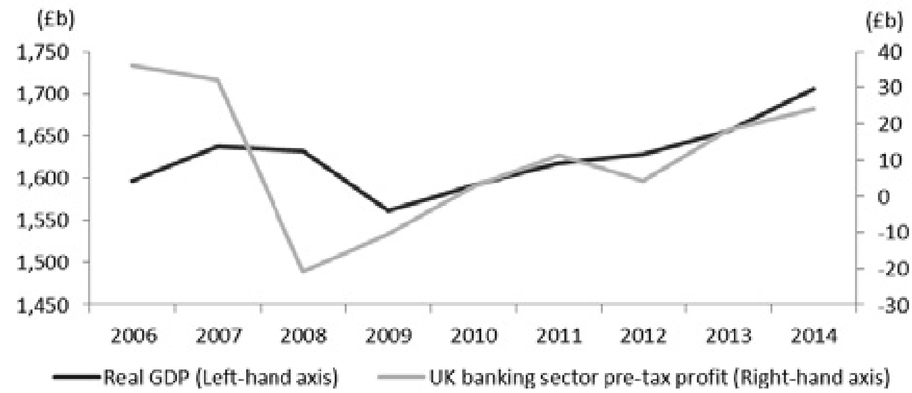
1. UK Economic Context and Overview of the Banking Industry

1.1 *UK economic context*

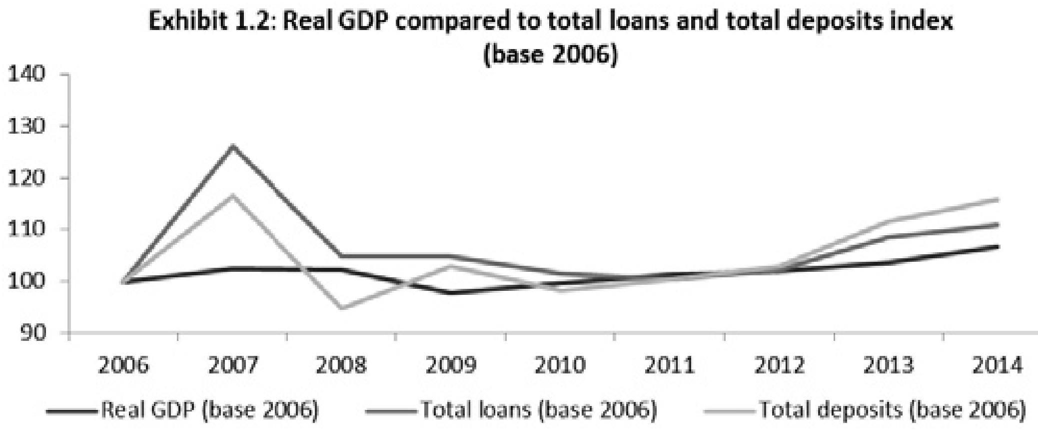
The financial services industry, encompassing banks, investment funds, insurance companies, credit unions and a range of other organisations, is an important part of the UK economy. As at March 2015, the industry employed approximately 1 million people in the UK, with UK banks directly employing over 400,000 people. In 2014, the industry represented 7.9 per cent. of UK gross domestic product ("**GDP**"), compared to 4.5 per cent. in France, and 4.0 per cent. in Germany. The financial services sector accounted for 11.5 per cent. of total UK tax receipts in 2013/2014.

UK banking performance is correlated with the health of the UK economy. In 2008, the first year of the financial crisis, the UK banking sector collective pre-tax profits decreased from a sector-wide £32 billion in 2007 to a loss of £21 billion. Real GDP in the UK decreased by 4.3 per cent. between 2008 and 2009 from £1.63 trillion to £1.56 trillion, as shown in Exhibit 1.1 below. However, there has been a considerable period of recovery between 2009 and 2014 with real GDP growing by a compound annual growth rate ("**CAGR**") of 1.8 per cent. and the UK banking sector achieving collective pre-tax profits of £24 billion in 2014. UK GDP growth, which has been increasing ahead of European peers, further grew by 3.0 per cent. in 2014, and real GDP is forecast to grow 2.6 per cent. in 2015 (*Source: Office for National Statistics, HM Treasury*). This trend is reflected in the trends in total loans in the UK banking sector, which have increased by a CAGR of 1.1 per cent. since 2009, and total deposits in the UK banking sector, which have increased by a CAGR of 2.4 per cent. since 2009, in line with GDP growth.

Exhibit 1.1: UK real GDP and UK banking sector pre-tax profits

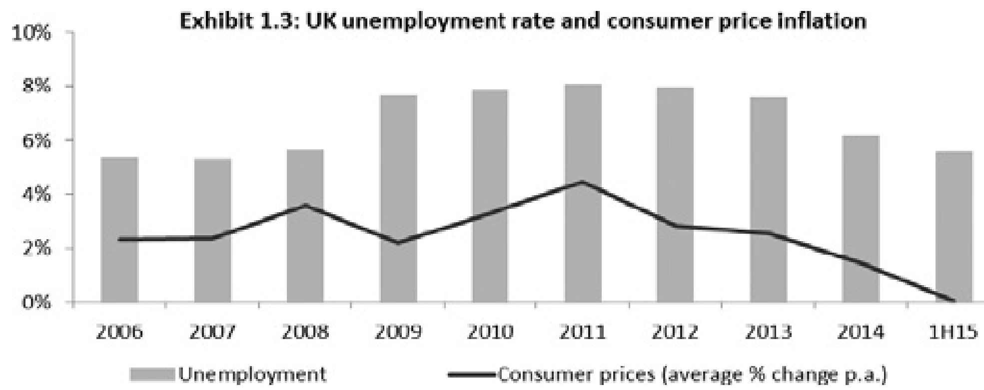


Source: Office for National Statistics, The Economist Intelligence Unit, Bank of England.



Source: Eurostat, The Economist Intelligence Unit.

Other UK macro-economic indicators have also shown improvements. Unemployment decreased from 2.7 million in November 2011, representing 8.5 per cent. of the working age population in the UK to 1.9 million by June 2015, representing 5.6 per cent. of the working age population in the UK. The total number of people in employment increased from 29.3 million to 31 million over the same period, from November 2011 to June 2015. Between 2012 and 2014, inflation remained within the Monetary Policy Committee's target of 2 per cent. ±1 per cent. However over the first six months of 2015, average inflation has been flat, which is below the Monetary Policy Committee's target range. The Bank of England forecasts that inflation will return to the target range in two years and rise slightly above the target in the third year.



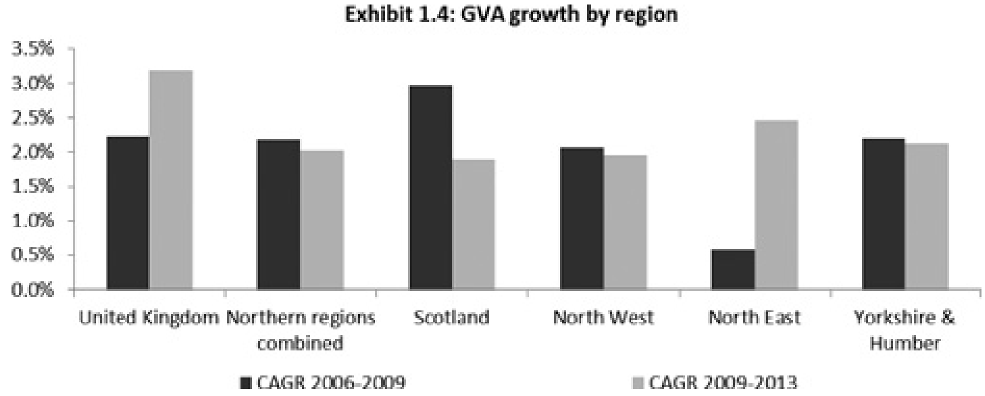
Source: The Economist Intelligence Unit, Office for National Statistics.

In November 2015 the UK Government enacted a surcharge on profits of banks and a phased reduction of the existing rate of the bank levy. For more information on the risks faced by CYBG Group in connection with tax laws see "*Risk Factors – CYBG Group faces risks associated with a failure to manage changes in taxation rates or applicable tax laws, or from a misinterpretation of such tax laws"* and for more information on the current regulatory environment see Part 10: "*Supervision and Regulation*".

1.1.1 *Regional economic context*

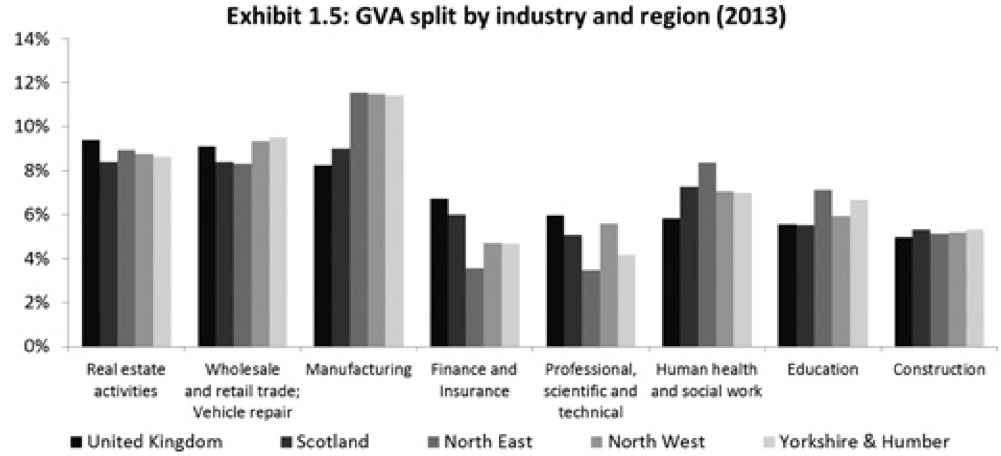
The UK Government reports on economic data from twelve regions, including CYBG Group's core regions: Scotland, North East England, North West England and Yorkshire and the Humber. The data reveals diverse demographics and macro-economic performances.

By 2013, in general the UK had recovered from the financial crisis to reach a higher nominal level of output (measured as gross value added ("**GVA**")), compared to 2006. Between 2006 and 2009, GVA in the North West and Yorkshire and the Humber grew in line with the UK average of 2 per cent. CAGR and 3 per cent. CAGR in Scotland. In Scotland, the North West and Yorkshire and the Humber GVA continued to grow at broadly a 2 per cent. CAGR between 2009 and 2013, although at a slower rate than the UK average of 3 per cent. CAGR, as shown in Exhibit 1.4 below. In the North East, GVA grew at 0.6 per cent. between 2006 and 2009, but accelerated between 2009 and 2013, growing at 2.5 per cent. The Northern regions combined remained around 27 per cent. of the UK total GVA throughout this period.



Source: Office for National Statistics.
Note: Northern regions combined is the combination of Scotland, North West, North East and Yorkshire & Humber.

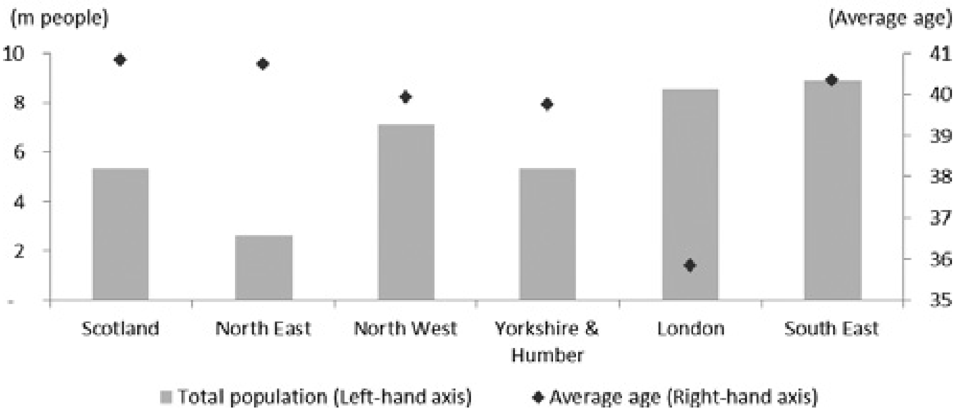
Exhibit 1.5 shows the GVA per industry in the UK and in each of the four core regions and for the UK as a whole. The output per industry, for the eight largest industries representing 56 per cent. of total GVA, in each region is broadly similar to the UK average. Manufacturing GVA in three of the core regions is an exception, producing outputs of approximately 11 per cent., compared to the UK average of 8 per cent. (*Source: Office for National Statistics*).



Source: Office for National Statistics.
Note: 'Other' (which is not shown) comprises: 'Agriculture, forestry and fishing'; ' Mining and quarrying'; 'Electricity, gas, steam and air-conditioning supply'; 'Transportation and storage'; 'Accommodation and food service activities'; 'Administrative and support service activities'; 'Public administration and defence'; 'Arts, entertainment and recreation'; 'Other service activities'; 'Activities of households'; 'Information and communication'; 'Public admin and defence' Chart displays available data as at 31 December 2013.

The demographics of the population differs between London and the rest of the UK. Whilst the average age of the UK population, including in CYBG Group's core regions, is 40, London's population is notably younger, averaging 36 years of age, as shown in Exhibit 1.6 below (*Source: Office for National Statistics*).

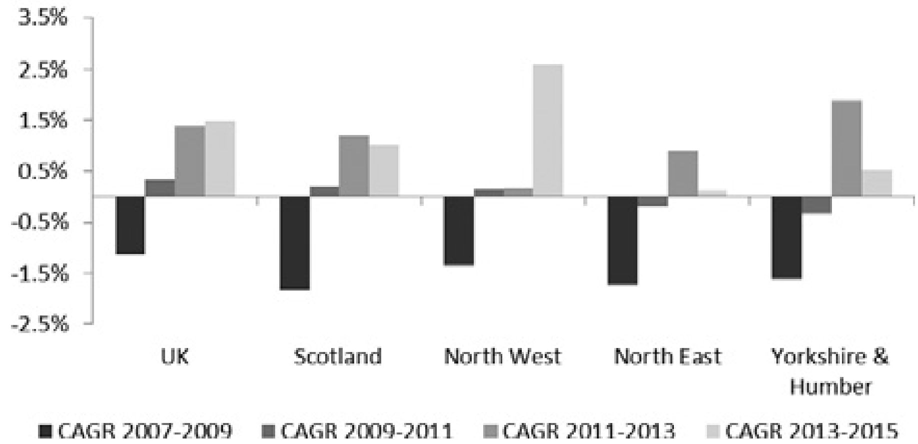
Exhibit 1.6: Total population and average age by region



Source: Office for National Statistics; chart displays data as at mid-2014.

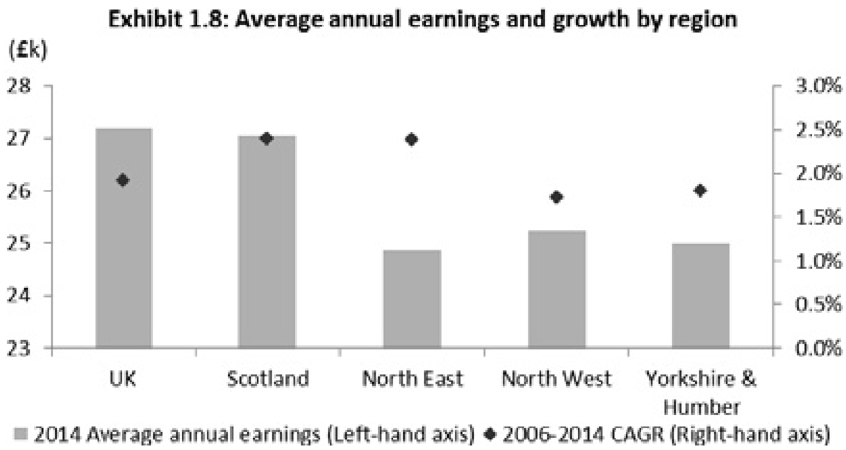
Employment increased by a CAGR of 2.6 per cent. between 2013 and the first half of 2015 in the North West outpacing UK growth of 1.5 per cent., even outpacing London which grew at 1.8 per cent. over the same period. However, between 2011 and 2015, employment growth in Scotland was below the UK average of 1.4 per cent., increasing by 1.1 per cent. per annum between 2011 and the first half of 2015, while Yorkshire and the Humber grew at a CAGR of 1.3 per cent. over the same period, broadly in line with the UK (*Source: Office for National Statistics*).

Exhibit 1.7: Employment growth by region



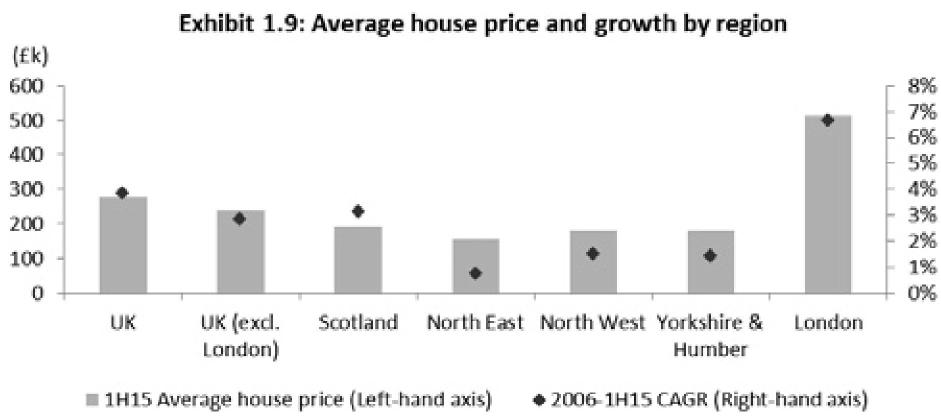
Source: Office for National Statistics.

Exhibit 1.8 shows that average earnings also differ between regions. Average earnings in Scotland are approximately £27,000, reflecting the UK national average, while average earnings in CYBG Group's other core regions are slightly lower at approximately £25,000. Although London is an outlier with average earnings of £35,000, earnings growth rates in the core regions have almost equalled or surpassed earnings growth rates in London since 2006. London earnings grew by a CAGR of 1.8 per cent. between 2006 and 2014, whilst average earnings in the North West grew by a CAGR of 1.7 per cent. and Yorkshire and the Humber grew by a CAGR of 1.8 per cent., Scotland and the North East both grew by a CAGR of 2.4 per cent. over the same period (*Source: Office for National Statistics*).



Source: Office for National Statistics.

UK residential property prices have continued to differ significantly by region, as shown in Exhibit 1.9. Between 2006 and the first half of 2015, average UK property prices increased by a CAGR of 3.8 per cent. Over the same period, London average property prices increased by a CAGR of 6.7 per cent., resulting in average house prices reaching £513,000. Property prices outside of London increased by a CAGR of 2.8 per cent., reaching an average of £238,000. In CYBG Group's core regions, the increase in property prices varied from 0.7 per cent. CAGR in the North East England to 3.1 per cent. CAGR in Scotland, resulting in average house prices ranging from £156,000 in North East England to £192,000 in Scotland (*Source: Office for National Statistics*).



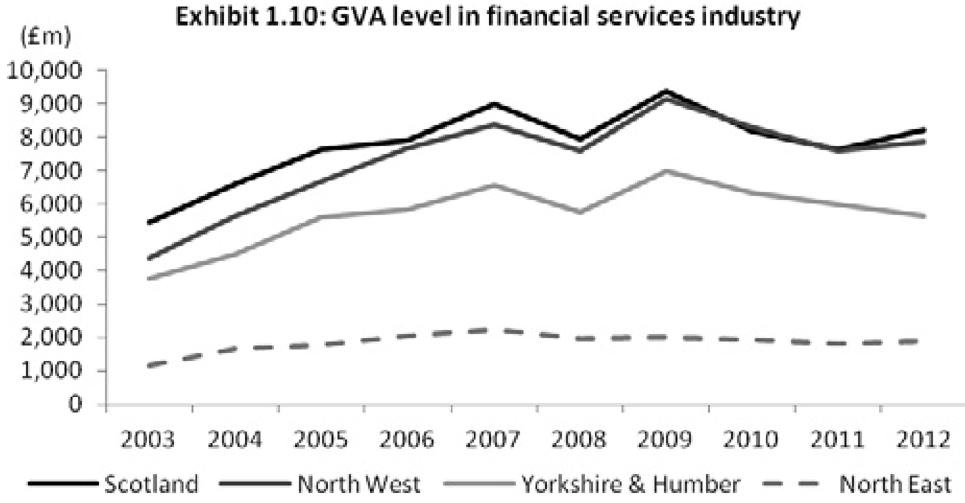
Source: Office for National Statistics.

The UK Government is seeking to stimulate growth in the north of England through its "Northern Powerhouse" agenda. The aim is to improve economic growth in the regions of the North East, North West and Yorkshire and the Humber. Part of this initiative is to invest in infrastructure projects designed to improve rail and road connectivity.

1.1.2 *Regional financial sector importance*

The financial services industry is significant across CYBG Group's core regions, representing 4 per cent. of GVA in North East England to 6 per cent. of GVA in Scotland. The industry employs over half a million people in CYBG Group's core regions and provides a pool of experienced personnel for banks that operate in those regions (*Source: TheCityUK*).

GVA growth in the financial services industry has been consistent across CYBG Group's core regions, and grew by 60 per cent. as a whole between 2003 and 2012. In 2012, total GVA of the financial services industry in the four regions was £24 billion, contributing 20 per cent. of the total UK financial services GVA (*Source: Office for National Statistics*).

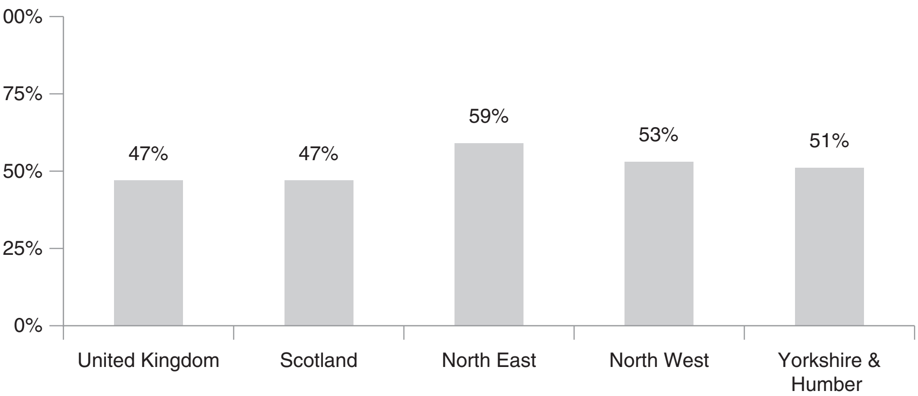


Source: Office for National Statistics.

1.1.3 *Regional Small and Medium size business importance*

Whilst the Department for Business Innovation and Skills ("**BIS**") considers micro, small and medium-sized enterprises ("**SMEs**") as businesses which employ up to 250 employees, the BBA segments SMEs by categorising smaller-sized businesses as those with bank account debit turnover of up to £1 million/£2 million and medium-sized ones having turnover up to £25 million, consistent with the Bank of England's definition of SME's having a turnover of up to £25 million. SMEs represent a large part of the UK economy, including 99 per cent. of all businesses; 60 per cent. of all employees; and 47 per cent. of turnover. See "*Introduction to SME Banking*" below for further information. SMEs in CYBG Group's core regions contribute a larger proportion of private sector turnover relative to the UK average. This trend is more notably pronounced in the North East where SMEs represent 59 per cent. of turnover as compared to 47 per cent. for the UK (*Source: Department for Business Innovation and Skills – Business population estimates for the UK and regions 2015: detailed tables*).

Exhibit 1.11: Proportion of all business turnover from SMEs 2015



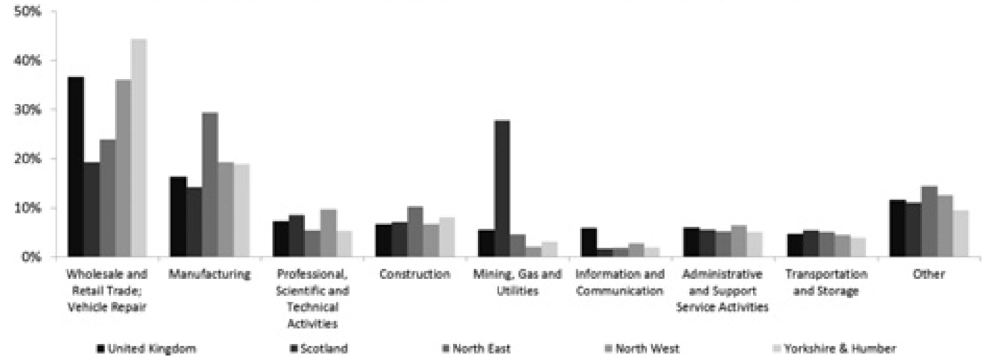
Source: UK Department for Business, Innovation and Skills.

Over the last decade, between 2005 and 2015, the number of SMEs has increased from 3.9 million to 5.4 million (*Source: UK Department for Business, Innovation and Skills – Business Population Estimates: 2015 statistical release*). There are positive indications of further growth as 16 per cent. of SMEs plan to increase staff in 2015 and 43 per cent. expect revenue growth (*Source: Federation of Small Businesses Voice of Small Business Survey 2013-14, BDRC Continental SME Finance Monitor*).

A 2014 European Commission study found the UK to be among the most competitive environments for SMEs in the European Union, with a positive outlook for future growth. The UK scored particularly high in business environment, public procurement, and conditions for international business (*Source: European Commission for Enterprise and Industry*). Recently, the UK Government has introduced a range of measures to stimulate SME success (*Source: House of Commons*). These include advice to boost exports, changes in public sector procurement to include more SMEs, improved broadband access and business rate relief. See "*Introduction to SME Banking*" below for further information.

SMEs are represented across all sectors of the economy. CYBG Group's core regions broadly reflect the wider UK economy. There are some regional differences in Scotland, where turnover from SMEs in mining and gas utilities is significantly higher than the UK average as a result of the North Sea oil and gas industry, and in the historically industrial North East and North West where manufacturing remains strong (*Source: UK Department for Business, Innovation and Skills – Business Population Estimates*).

Exhibit 1.12: Proportion of SME turnover by region and by sector 2015



Source: UK Department for Business, Innovation and Skills.
Note: 'Other' comprises: 'Arts, Entertainment and Recreation'; 'Accommodation and Food Service Activities'; 'Human Health and Social Work Activities'; 'Real Estate Activities'; 'Agriculture, Forestry and Fishing'; 'Other Service Activities' and 'Education'.

1.2 *Structure of the UK banking industry*

Banks and other lenders play a vital role in the UK economy. This is reflected in the type of customers they serve, ranging from the general public and small businesses to sophisticated corporations and investors. Banks' services are essential in facilitating day-to-day financial transactions as customers interact with their banks as the centre of non-cash transactions, such as direct debit payments and salary deposits. Their services are also essential in providing capital for short to long-term purposes, they organise foreign exchange and provide sophisticated financial products that help consumers and businesses plan for the future.

The main players in the UK banking market can be grouped into six broad categories:

- *Large national banks*: These banks have national coverage and a full retail bank offering including current accounts, mortgages, savings, credit cards, and other personal banking services. Due to consolidation over the last ten to fifteen years, there are currently only five large national banks in the UK banking sector (the "**Big Five**"); Barclays, HSBC, Lloyds, which includes the Halifax and Bank of Scotland brands, RBS, which includes the NatWest and Ulster Bank brands, and Santander (*Source: Bank of England: Evolution of the UK banking system*).
- *Challenger banks*: The ICB defines challenger banks as banks that are large enough to be a threat to incumbents and have a strong incentive to compete with them to increase market share (*Source: ICB*). Challenger banks can be grouped into three sub-categories: (i) mid-sized banks that are branch-led, full-service banks with an established customer base with the ability to compete with the Big Five; (ii) small and specialised banks with total assets of under £20 billion that focus on differentiating themselves through either customer service and/or specific product offerings; and (iii) retailer banks where retailers typically leverage their large customer base to cross-sell financial products, including savings accounts, loans, mortgages, credit cards, and in some cases, PCAs.
- *Building societies:* These are usually small lending institutions which are owned by their members. These mainly offer mortgages and savings products, although many now provide a broader range of retail banking products, such as current accounts and credit cards.

- *Credit unions:* These are usually small lending institutions which are owned by their members. They typically serve those customers who are unable to access standard retail bank products through the established high street banks.
- *Monoline product providers:* These providers focus on the provision of specific products, such as credit cards, rather than a full range of retail banking services.
- *Other lenders*: These include payday lenders, online specialists, peer-to-peer lending facilitators, and specialist mortgage lenders.

The Big Five have 82 per cent. market share of the retail PCA market and 59 per cent. market share of the mortgage market (*Source: Mintel Mortgages and Mintel Current Accounts*). According to an October 2015 report, in England and Wales the four largest banks account for 80 per cent. of active BCAs, with these banks having a similar market share in Scotland. Many foreign banks are also active in the UK, typically serving multi-national companies which operate in the UK, but with activities across the globe.

1.2.1 *Increasing competition in the UK Banking sector*

The UK Government has emphasised the need to introduce more competition into the SME and retail banking market, in response to poor customer satisfaction. In a study conducted by YouGov as at April 2013, retail banking customers rated large banks, namely the Big Five, negatively for customer satisfaction. On the other hand, smaller and mid-sized banks enjoyed a much higher customer satisfaction score. Similarly, a study conducted into the SME banking market as at July 2014 revealed that only 13 per cent. of SMEs believe that their bank acts in their best interest (*Source: FCA and CMA market study – Banking services to small and medium sized enterprises*). The studies identify high levels of market concentration amongst the Big Five as one of the key drivers for dissatisfaction. For more information on the risk faced by CYBG Group in connection with competition for financial services in the UK see "*Risk Factors – CYBG Group faces risks from the highly competitive environment in which it operates*".

Many smaller and mid-sized banks have become popular with customers by focusing on strong customer service with minimal brand damage from the financial crisis. This has been complemented by greater interest in the banking sector from the business and investor community. In 2010, Metro Bank, a new bank, was awarded a full-service banking licence. This was the first time a new full banking licence had been granted to a new high street bank in over 100 years (*Source: Metro Bank*). A number of banks are expected to launch initial public offerings during 2016 in addition to the initial public offerings of TSB, Virgin Money, OneSavings, Shawbrook and Aldermore, which have already taken place.

(a) *The landscape of banks outside the Big Five*

Banks outside of the Big Five typically compete by providing a specialised offering to clients, either in terms of product range, service level, regional focus, pricing or a combination. These are outlined further below:

- *Product range focus*: banks that provide a subset of products and services to their clients. For example, banks such as M&S Bank have carved out a niche in travel related banking services via their "M&S Travel Money" offer (*Source: M&S Bank*).
- *Service focus*: banks that seek to differentiate on the quality of their customer service. For example, Metro Bank emerged on the promise of customer-focused retail business, offering convenience and simplicity in the form of 7-day opening hours (*Source: Metro Bank*).
- *Regional focus*: banks with a long-standing UK banking history that largely focus on a subset of UK regions. CYBG Group is an example of a bank with a long-standing market position, focusing on the markets in Scotland and Northern England. Additionally, newly emerging banks and traditionally localised banks are expanding across different regions. For example, TSB has leveraged a pre-existing network of former Lloyds TSB branches, while Bank of Scotland which has a regional concentration, now sit within Lloyds (*Source: Bank of England*).

- *Pricing focus*: some smaller and mid-sized banks are also offering lower rates for customers compared to incumbents. This is particularly notable for fixed-term savings products, where some banks such as Charter Savings, are offering a superior interest rate as they seek to build up their deposit book.

(b) *Competing with the Big Five*

Although the brand reputation of the major banks has weakened, the Big Five continue to have a significant national presence and established customer base, allowing them to enjoy high volume, scale efficiencies and benefits from customer inertia. The market share for PCAs and BCAs has remained largely stable over the last ten years, inhibiting the ability of smaller participants to compete effectively (*Source: CMA – Retail Banking Market Investigation*).

Due to the continued dominance of the Big Five, smaller and mid-sized banks are encouraged to meet some or all of the requirements set out in a letter to the Chancellor from the Office of Fair Trading in September 2013 in order to become an effective competitor. The requirements include: a branch network for PCA and SME banking services; a wide breadth of products; a strong base of PCAs; an established brand and reputation; ability to generate and reinvest profits; ability to innovate and differentiate the offering and a strong management team (*Source: Office of Fair Trading – Letter to Chancellor, September 2013*).

1.2.2 *Key trends in distribution*

(a) *Digitisation of the banking model*

The UK banking industry is experiencing a significant shift towards digitisation. Banking has become increasingly omni-channel, as digital channels such as online and mobile banking are increasingly complementing traditional customer channels such as branches and call centres.

Retail banking customers tend to use digital functionality for speed and convenience, while using human interaction at key decision points such as obtaining a mortgage. Digital functionality is typically used to conduct routine transactions and to purchase simple products such as savings accounts and credit cards (*Source: Mintel – Deposit and Savings Accounts UK*). Internet banking remains the main driver of digital channel usage, with an average of 9.6 million log-ins per day, compared to 10.5 million mobile log-ins per day in the UK in 2015 (*Source: BBA – The Way We Bank Now*). Additionally, 81 per cent. of SME customers interact with their banks online, with 39 per cent. using online banking services on a daily basis in 2014 (*Source: BBA – Promoting Competition*).

Mobile payments systems were introduced by a group of banks in the UK in 2014. They launched a mobile payments service, where payments can be sent and received using a mobile number, called "Paym", which allows users to link their bank accounts to their mobile phones. Sixteen UK banks participate – including the Big Five, Clydesdale Bank and Yorkshire Bank – and as at August 2015 nearly 2.6 million UK customers signed up for the service (*Source: Paym*).

In general, the rate of growth in customers using digital channels has been significantly faster than the rate of decline in the number regularly using branches (*Source: Boston Consulting Group – Distribution 2020: The Next Big Journey for Retail Banks*).

Digitisation has enabled banks to reduce cost and improve efficiency. Banks are increasingly leveraging tools such as e-forms and digital workflow systems to automate servicing and fulfilment processes (*Source: McKinsey & Co – The Rise of the Digital Bank*). Digital data and analytics systems have increasingly been used to tailor and personalise product offerings to different customer segments and expand banks' share of wallet (*Source: Boston Consulting Group – Winning Share of Wallet in Wholesale Banking*).

Price comparison websites, also known as aggregator websites, have emerged as another channel through which consumers purchase retail banking products. In 2014, 20 per cent. of UK internet users used a price comparison website to compare savings account products, with 7 per cent. of those using the price comparison website to apply for a savings account (*Source: Mintel – Web Aggregators in Financial Services UK*).

(b) *Importance of branch network and visible footprint*

A strong branch network remains an important part of the banking model in both the retail and SME markets. 92 per cent. of retail current account customers use branches to access financial services, and over 67 million transactions are carried out each week in UK bank branches. Branches are particularly important in the sale of core customer products, such as current accounts and mortgages. 42 per cent. of current account customers use their branch at least once per month (*Source: Mintel Current Accounts UK*), and 42 per cent. of customers prefer to arrange a mortgage face-to-face (*Source: Mintel Mortgages UK*). In the SME market, 47 per cent. of SME customers visit a branch at least once a month (*Source: Mintel Packaged and Current Accounts UK*).

The bricks-and-mortar presence of a branch network is an advantage that banks leverage in order to compete against purely digital payment providers. However, most major UK banks are repurposing their branches from being transaction centres into product showrooms and conversation points. Branch employees are being trained to not only assist customers with everyday transactions, but also to offer face-to-face advisory services that digital channels cannot provide.

(c) *Regional variations in CYBG Group's distribution channels*

Consumers' preferred channels for purchasing retail banking products varies by both product and region. On a national level, consumers prefer to apply online for products with a simpler application process, such as savings accounts, credit cards and personal loans, while products with longer application processes, such as mortgages, are more frequently arranged in a branch. Preferences for branches to online channels of consumers in CYBG Group's core regions relative to the average UK consumer, varies by product (*Source: Mintel*).

According to a survey conducted in February 2015, the proportion of customers looking to apply for savings accounts in a branch in CYBG Group's core regions was significantly lower than the UK average. In Yorkshire and the Humber, 34 per cent. of those surveyed were looking to apply for a savings accounts in a branch compared to the UK average of 43 per cent. (*Source: Mintel Deposit and Savings Accounts UK*). However the preference for online channels in CYBG Group's core regions was in line with the UK average of 63 per cent. Similarly, 49 per cent. of UK customers surveyed in May 2015 prefer online channels to branches when applying for a credit card, in line with the average of CYBG Group's core regions. However, there is a differential at the regional level, with Scotland and the North having greater preference than the UK average for online channels, while in Yorkshire and the Humber the preference is lower. In a national survey conducted in October 2014, 27 per cent. of respondents preferred to arrange a personal loan face-to-face with a bank or loan provider, compared to 40 per cent. who preferred to arrange the loan directly online (*Source: Mintel*).

1.3 ***Banking sector financial statements***

1.3.1 *Revenue*

Revenue consists of net interest income and other operating income. Net interest income is primarily derived from loans, deposits, and other sources of funding. It is generated through the differential between the rate charged to borrowers and the cost of funds. Other operating income is primarily earned from customer fees and commissions.

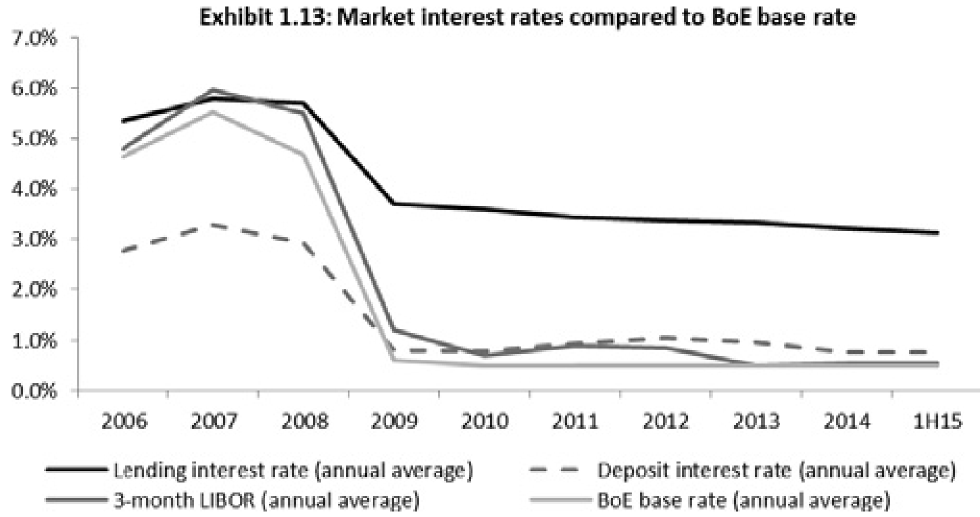
For retail-centric businesses, net interest income is the main driver of revenue, focusing on core lending and deposit products. Business banks offer more fee-based products, such as transaction banking or trade finance.

1.3.2 *Cost of funds*

Banks have four main sources of funding: (i) customer deposits; (ii) borrowing from the Bank of England; (iii) borrowing from other banks; and (iv) borrowing from other institutions (e.g. pension funds or insurance firms).

The cost of funding to a bank is a combination of the four sources. The cost differs across banks due to differences in weighting of each source by the banks and is not generally disclosed at the product level.

The base rate, set by the Bank of England, is one of the key determinants of all other market rates. Other market interest rates which track the Bank of England's base rate include both the monthly lending and deposit sterling weighted average interest rates of UK resident monetary financial institutions' (excluding the Bank of England).



Source: Bank of England, British Bankers Association.

1.3.3 *Base rate used for this section*

This section uses the base rate as a constant point of comparison for different product interest rates. Any individual bank's cost of funds will vary, depending on their internal allocation methodology, and cannot be readily stated on a product-by-product basis.

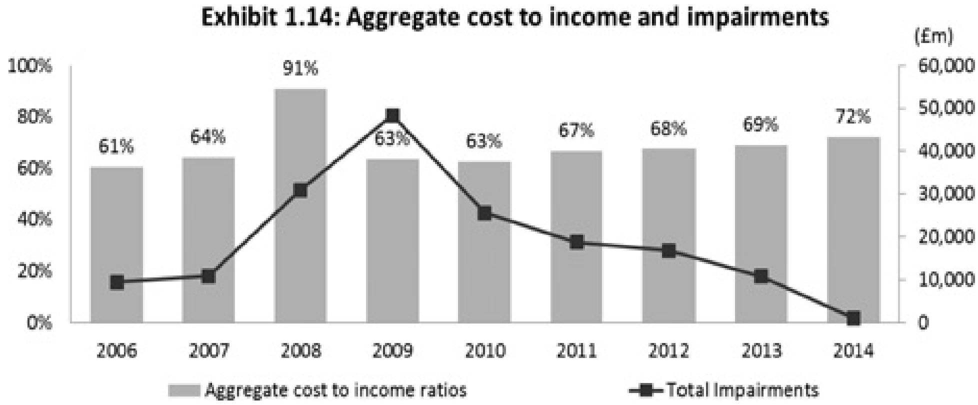
1.3.4 *Cost*

A bank usually incurs two types of non-interest costs based on its ordinary activities: operating costs and impairments.

(i) The main components of operating costs are IT, property and salaries. The cost to income ratio measures the efficiency of a bank's operating model. Following a sharp increase in 2008, cost income ratios of banks have been steadily rising in the UK market, reflecting downward pressure on revenue, as shown in Exhibit 1.14.

(ii) Impairments represent a provision against current and potential losses on the stated value of assets on a bank's balance sheet. Impairments rose steeply for UK financial institutions during the financial crisis. Between 2009 and 2014, the value of impairments has decreased to below pre-crisis levels as of 2014, as shown in Exhibit 1.14.

Exhibit 1.14: Aggregate cost to income and impairments



Source: Based on Bank of England data. Note: Following the transition of building societies' statistical reporting from the FSA to the Bank of England on 1 January 2008, the above includes building society data from the year 2008 onwards.

1.3.5 *Profitability*

A bank's profit after tax is based on the sum of revenues earned (net interest income and other operating income) less operating costs, impairments, one-off charges, taxes and other provisions for future losses.

1.3.6 *Capital structure*

A bank's assets can be unsecured, for example, credit cards or secured, such as, mortgages. Banks apply two different risk weighting methods in calculating their total risk-weighted assets ("**RWAs**"):

- *The Standardised Approach*, as followed by CYBG Group, uses standardised risk weightings in accordance with CRD IV. These are more explicit rules which aim to remove subjectivity from the risk weighting.
- *The Internal Ratings Based Approach* ("**IRB**") permits banks to use their own empirical models to best assess the appropriate risk weightings. Banks are permitted to use this approach in the UK, subject to approval from the PRA. The two IRB approaches to risk weighting, foundation and advanced, usually generate lower risk-weighted assets.

In the UK, the minimum capital required for each bank is established through discussion with the PRA, which sets each bank an individual capital guidance ("**ICG**"). The ICG is typically a multiple of the underlying required Tier 1 ratio. In the UK, all banks are required to meet a minimum 6 per cent. Tier 1 ratio, which is calculated as Tier 1 capital / RWAs. The major UK banks are required to meet a minimum of 7 per cent. (*Source: Bank of England*).

2. Retail Banking

2.1 *Summary of the retail banking market in the UK*

2.1.1 *The role of retail banks*

Retail banks offer a range of banking products which include PCAs, savings accounts, mortgages, personal loans, credit cards, and insurance and investment products. Banks offer these products through a number of bank-owned distribution channels such as branches, telephone and digital channels as well as through third-party distribution channels such as mortgage intermediaries, known as "brokers".

Retail banks in the UK serve three main customer segments: (i) mass affluent customers typically customers who have investible assets between £50,000 and £1,000,000 – above which they generally become private banking clients; (ii) retail banking customers in the UK who are mass market customers, with investible assets below £50,000; and (iii) customers with few to no assets, for example students and youth customers.

Traditionally, retail banks in the UK have operated a "full-service" model offering a broad suite of products to a diverse customer base. The major full-service banks have a large base of current account holders, a national branch network, as well as complementary channels. The combination of a large customer base, extensive channel reach and a broad product suite allows these banks to address the varying needs of their customers. For example, 57 per cent. of PCA holders also hold a savings account with their PCA provider (*Source: Mintel – Consumers and Retail Banking*).

2.1.2 *Regional view on retail banking*

At a regional level, demand for retail banking products varies according to local economic and competitive conditions.

Employment growth in CYBG Group's core regions has contributed to increased demand for credit. Between 2006 and first half of 2015, these four core regions experienced year-on-year house price growth of 0.7 per cent. to 3.1 per cent., and in December 2014, approximately 18 per cent. of residents in these regions planned to take out a mortgage or re-mortgage their homes (*Source: Mintel – Mortgages UK*).

Retail banking markets in Scotland and Yorkshire include a number of smaller participants whose presence in those regions is larger than their presence in the national market. In Scotland, the top four brands with the highest branch network concentrations are Bank of Scotland, RBS, TSB, and Clydesdale Bank. In Yorkshire, the top four brands by branch concentration are Yorkshire Bank, HSBC, NatWest, and Lloyds. For example, as at 31 December 2013, while the Barclays brand had the largest network of branches in the UK, it had less than 30 branches in Scotland, while Bank of Scotland, RBS, TSB, and Clydesdale Bank each had more than 100 in Scotland (*Source: SNL*).

2.1.3 *Distribution channels*

Consumers more frequently purchase simpler products online than in branches. For example, according to a March 2014 report, 42 per cent. of consumers prefer mortgage application processes, which are longer and more detailed, to be entirely face-to-face compared to 29 per cent. who prefer the process to be entirely online, whereas a higher percentage of customers surveyed applied for products with simpler application processes, such as savings accounts, online (*Source: Mintel – Mortgages UK*). See "*Key trends in distribution – Regional variations in CYBG Group's distribution channels*" above for further information.

Retail banking customers are also increasingly turning to online channels to service their accounts. 78 per cent. of PCA customers in the UK surveyed in May 2015 used online banking at least once per month to access their accounts, compared to 42 per cent. who used branch counter services. However, branches continue to be an important channel as 92 per cent. of PCA customers report using branch services at least once per year, compared to 86 per cent. who use online banking (*Source: Mintel – Packaged and Current Accounts UK*). Furthermore, a survey conducted in June 2014 reported that 57 per cent. of banking customers agreed that branches were necessary for discussing banking issues (*Source: BBA – Promoting Competition in the UK Banking Industry*).

2.1.4 *Customer sentiment*

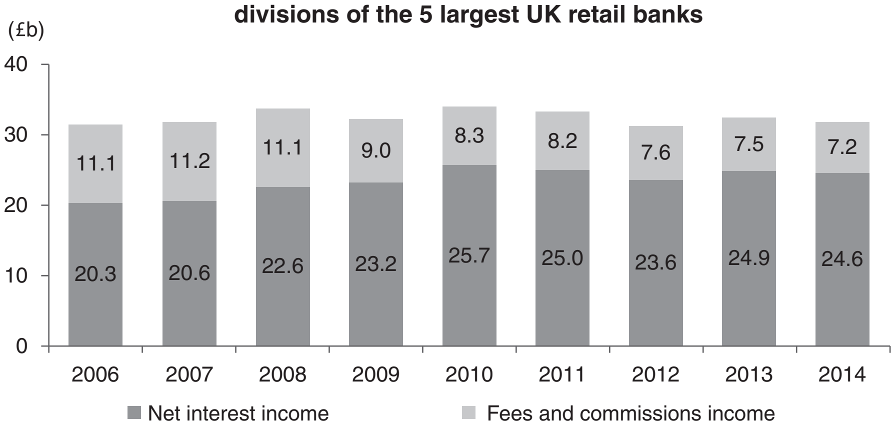
The financial crisis significantly impacted customer attitudes towards the banking sector and the way in which consumers interact with banks. Attitudes towards the banking sector vary between large and small banks. A 2013 YouGov survey of over 4,000 people found that 73 per cent. considered the banking sector to have a bad reputation, scoring lower than any of the other 25 industries included in the survey. This negative view is largely associated with the Big Five, which scored lowest in the survey. A July 2014 market report by the CMA found an inverse relationship between the size of a retail bank's customer base and its customer satisfaction scores, with the five highest-scoring brands in customer satisfaction being amongst the UK's smaller institutions, including Clydesdale Bank and Yorkshire Bank.

Retail banks have experienced declining levels of customer retention. Between 2012 and 2014, the proportion of UK banking customers who had been with their bank for more than 10 years decreased from 72 per cent. to 59 per cent. Customer service quality is an important factor in customers' decisions to switch account providers. A May 2014 survey found that 20 per cent. of UK adults who changed current account providers in the past five years changed providers due to a better reputation for customer service from the new provider. A similar proportion of 21 per cent. cited poor customer service from their previous provider as the factor that persuaded them to switch providers (*Source: Mintel – Packaged and Current Accounts UK*).

2.2 ***Retail Banking performance***

The profitability of a retail bank is determined by the relative levels of its income and expenses. The two primary streams of income for a retail bank are net interest income and other operating income. Fees and commissions income are the primary source of other operating income and is reflected in Exhibit 2.1 below. The primary costs are operating costs and impairments. Banks often look at impairment costs as a factor in determining profitability. Exhibit 2.1 below shows these revenue streams for the Big Five between 2006 and 2014.

Exhibit 2.1: Revenue components for the retail banking divisions of the 5 largest UK retail banks



Source: Annual reports.

2.2.1 *Net interest income*

Net interest income for the Big Five rose steadily between 2006 and 2010, from £20.3 billion to £25.7 billion, before stabilising at around £25 billion. In 2014, net interest income accounted for 77 per cent. of total banking income for the Big Five.

2.2.2 *Fees and commissions income*

Retail banks charge customers fees for a variety of services, such as overdraft facilities, credit cards, and international transfers of funds. They also receive commissions from distributing products such as insurance. Taken together, these make up income from fees and commissions.

Exhibit 2.1 illustrates how both regulatory scrutiny and other market conditions have impacted fee and commission income in the retail divisions of the Big Five between 2007 and 2014, leading to a decline from £11.2 billion to £7.2 billion over this period.

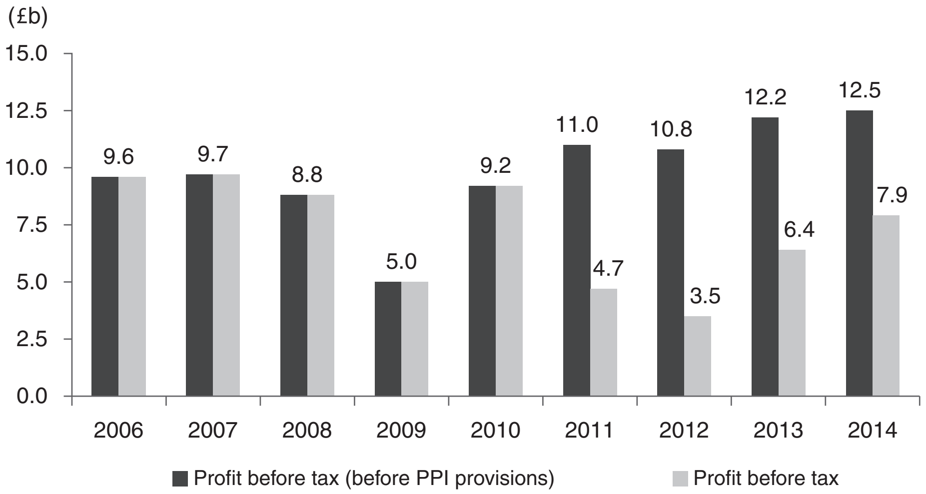
2.2.3 *Impairments*

As shown in Exhibit 1.14, banks have experienced rising impairments during the financial crisis. Impairments tend to be higher on unsecured assets than on secured assets since the bank is able to realise security of the asset in order to repay part of, or the entire loan. Impairments have since fallen to below pre-crisis levels as unemployment has fallen and interest rates have remained low.

2.2.4 *Profitability*

Exhibit 2.2 shows the underlying and reported profits of the Big Five. Underlying profitability fell sharply in 2009 as a consequence of the financial crisis, but has since rebounded, growing at a rate of 20.2 per cent. per annum between 2009 and 2014. However, fines and repayments for the mis-selling of payment protection insurance ("**PPI**") have impacted banks' profits, reducing 2014 headline profits of £12.5 billion to £7.9 billion. Between 2011 and 2014, PPI mis-selling led to the Big Five making total provisions of £23.9 billion, equivalent to 51 per cent. of pre-tax profits. As a result, reported profits decreased at a CAGR of 3.6 per cent. between 2010 and 2014.

Exhibit 2.2: Calculated profit before tax for the retail banking divisions of the 5 largest UK retail banks



Source: Annual reports.

2.3 ***Key products: personal current accounts***

2.3.1 *Introduction*

A PCA is central to most retail customers' personal finances, and typically defines their primary relationship with a bank.

The PCA market can be divided into: (i) primary PCA, where the customer uses the PCA for everyday transactions, usually where there is a direct deposit of salary and the use of direct debits for regular bills; and (ii) secondary PCA, where the customer opens a second PCA with another provider. It is estimated that 32 per cent. of PCA holders in the UK have PCAs with more than one provider; this figure is 30 per cent. in the North East and Scotland, 26 per cent. in the North West and 25 per cent. in Yorkshire (*Source: Mintel – Current Accounts UK*).

Retail banks compete to be the primary PCA provider, since primary PCA customers are likely to hold further products, such as mortgages, credit cards and loans, and are generally more loyal customers (*Source: CMA – Personal Current Accounts*). Due to competition, many UK banks have explicit strategies to generate 'main banking relationships', i.e. using the primary PCA as an anchor to secure multi-product holdings and omni-channel usage (*Source: Boston Consulting Group – Retail Banking: Winning Strategies and Business Models Revisited*).

PCAs also provide a valuable source of stable, long-term funding. The cost for banks is typically lower than savings deposits or wholesale funding (*Source: Office of Fair Trading – Review of Personal Current Account Market*).

2.3.2 *Competitive landscape*

PCA market concentration is expected to decrease as a consequence of three developments. The first is the divestment by Lloyds of 631 branches and their accounts into TSB Bank. TSB Bank was established as a separate business from Lloyds in September 2013, with more than 4.6 million former Lloyds customers and over £20 billion in both loans and customer deposits. TSB Bank became a stand-alone bank through an initial public offering in June 2014. A similar but smaller divestment is underway for RBS, where 314 branches have been partially divested to a consortium of investors in anticipation of a full high street re-branding towards SME and mid-corporate customers. The second development is the rise of new challenger banks, some of which have sought to capture market share from top PCA providers.

The third development was the UK Payments Council introduction of the CASS in September 2013. The intention was to increase competition amongst retail banks and support the entry of new banks into the PCA market. The scheme provides a guarantee that an account can be switched from one provider to another within seven working days. Currently, forty banks and building societies participate, accounting for most of the UK PCA market, including Clydesdale Bank and Yorkshire Bank. In October 2014, the FCA and the PSR announced that they intend to explore the introduction of full bank account portability in order to facilitate the CASS. UK Payments Council data indicated over an annual period ending 30 June 2015 there were 1,109,381 switches and since the new service launched in September 2013 it has successfully processed 2,021,066 switches. As at May 2015, the top seven PCA providers and their estimated market shares of primary PCAs, defined as a customer's main current account, were Barclays (16 per cent.), Lloyds (13 per cent.), Halifax (12 per cent.), Santander (12 per cent.), NatWest (11 per cent.), HSBC (9 per cent.), and Nationwide (7 per cent.). Clydesdale Bank and Yorkshire Bank were each estimated to hold 1 per cent. of the UK primary PCA market (*Source: Mintel Current Accounts*).

2.3.3 *Key metrics*

There are approximately 80 million PCAs in the UK, of which 65 million are active (*Source: CMA – Personal Current Accounts Market Study*). As at 30 June 2015, there were £7 billion of outstanding PCA overdraft balances, a decrease of 4 per cent. since June 2014 (*Source: BBA – High Street Banking Statistics*).

2.3.4 *How banks make money from PCAs*

PCAs are a low cost source of funds for banks and as such, they are able to generate net interest income on customer deposits. Net interest income, overdraft balances, and fee and commission income from associated banking services make up the principal sources of income generated by PCAs.

Added value accounts, or 'Packaged Accounts', bundle additional products with the PCA for a fixed monthly fee. These products often include mobile phone insurance and auto breakdown coverage (*Source: Office of Fair Trading – Review of the PCA Market*).

2.4 ***Key products: cash savings products***

2.4.1 *Introduction*

Cash savings products allow customers to deposit cash funds and to receive interest on those funds at rates which are typically higher than funds held in a PCA. There are two main types of cash saving products: fixed rate term deposits and variable rate savings accounts.

2.4.2 *Competitive landscape*

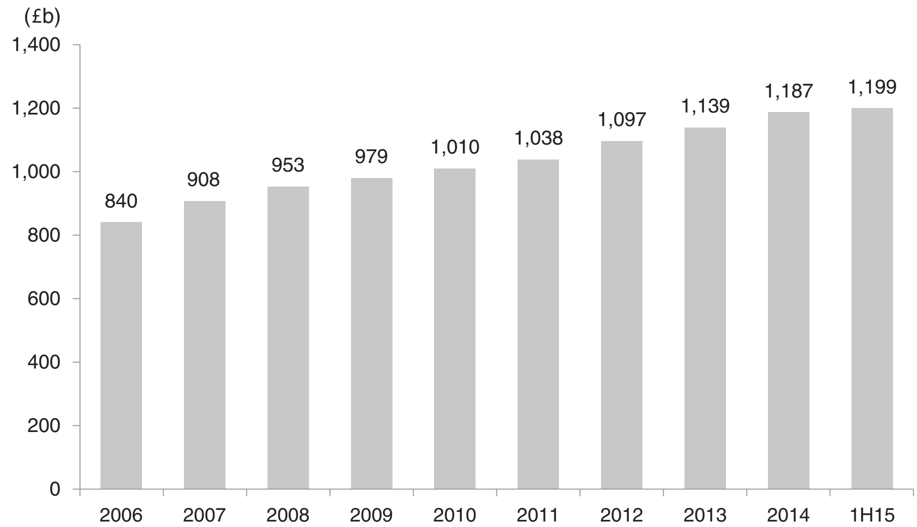
As at October 2014, 109 banks, building societies, and credit unions offered cash savings products in the UK, with the six largest providers holding approximately 68 per cent. of all cash savings balances. Estimates of market concentration show that while the cash savings products market has remained relatively concentrated for a number of years, the divesture of TSB Bank from Lloyds and the entrance of new providers such as Tesco Bank decreased market concentration in 2014 (*Source: FCA – Cash savings market study report: Part I: Final findings Part II: Proposed remedies*).

In compliance with EU Deposit Guarantee Scheme Directive for the protection of deposits, the UK Government established the Financial Services Compensation Scheme which pays compensation to eligible customers of authorised financial services firms. For more information see Part 10: "*Supervision and Regulation – UK Regulation – Financial Services Compensation Scheme and the EU Deposit Guarantee Scheme Directive*".

2.4.3 *Key metrics*

As shown in Exhibit 2.3, total UK household cash savings products deposits stood at £1,199 billion as at 30 June 2015. Over the preceding 12 months to June 2015, household cash savings products deposit balances increased at a rate of 3.3 per cent.

Exhibit 2.3: Sterling deposits from households



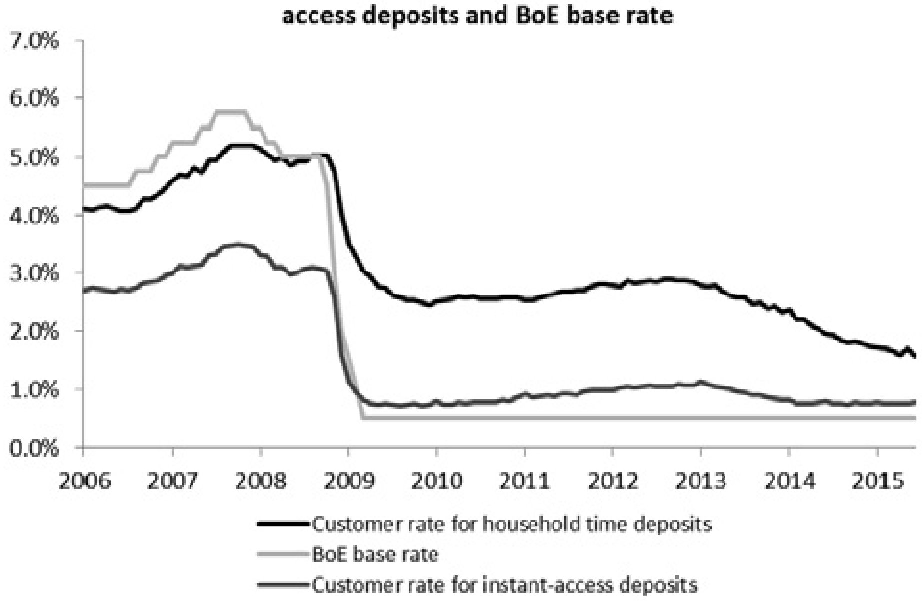
Source: Based on Bank of England data.

Despite the fall in interest rates between 2008 and 2009, cash savings deposits increased steadily. It is estimated that in 2013, around £160 billion of instant-access savings deposits earned an interest rate equal to, or lower than, the Bank of England base rate of 0.5 per cent. Approximately £145 billion of these balances were held in accounts with more than £5,000.

2.4.4 *Cash savings products*

Exhibit 2.4 displays trends in the customer rates for time deposits and instant-access savings deposits, as well as the official rate set by the Bank of England. The gap between the interest rates paid on time deposits compared to instant-access deposits reflects the premium banks attach to time deposits, which are held for longer periods.

Exhibit 2.4: Customer rate for household time and instant-access deposits and BoE base rate



Source: Based on Bank of England data.

Between 2008 and 2009, the decline in the Bank of England base rate was sharper than the decline in interest rates offered for customers' deposits. This has resulted in savings deposits becoming a relatively more expensive source of funding compared to the official rate than before the financial crisis.

2.5 ***Key products: mortgages***

2.5.1 *Introduction*

The most common form of financing used by individuals in the UK to purchase residential property is a loan secured by using the property as collateral. There are three principal types of mortgage products:

- Variable rate mortgages have interest rates that broadly follow the Bank of England base rate but are determined by the lender and can change at any time;
- Fixed-rate mortgages offer a constant rate that typically lasts for a two to five-year period before reverting to a variable interest rate; and
- Tracker mortgages track the Bank of England base rate at a set margin.

As at first half of 2015, 56 per cent. of total outstanding mortgage balances were subject to a variable rate while 44 per cent. were subject to a fixed rate. 37 per cent. of mortgage balances were subject to a fixed rate in June 2014 and 29 per cent. as at June 2013, (*Source: FCA – Statistics on Mortgage Lending*) an increase suggesting mortgage customers are increasingly capitalising on low interest rates by purchasing or refinancing to fixed rate mortgages.

In addition to differentiating mortgages based on the interest rate, mortgage products can be further categorised by the type of repayment made by the customer:

- Capital repayment mortgages require the full value of the loan and the interest to be repaid by the end of the term;
- Interest-only mortgages require the borrower to repay only the interest on the loan; at the end of the term, the borrower still owes the full value of the original loan. These mortgage products are therefore often dependent on rising house prices or other forms of repayment plans to pay back the capital repayment at the end of the term or a separate repayment vehicle; and
- Part capital repayment/part interest-only mortgages have only part of the mortgage payment being made towards the capital, with the remainder of the borrower's regular payment made towards the interest.

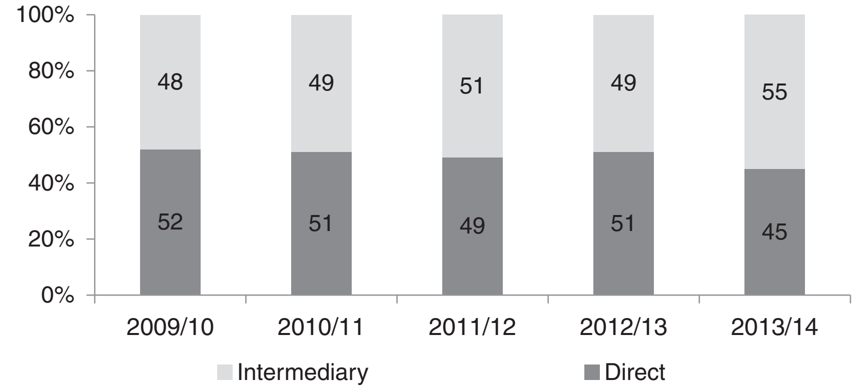
In 2013, the FCA required mortgage lenders to contact all borrowers with interest-only mortgages due to mature before the end of 2020 due to concerns about the borrowers' ability to repay the original loan at the end of the term. As a result, the Council of Mortgage Lenders reports that the number of interest-only mortgages fell 12 per cent. between 2012 and 2013 as borrowers converted to capital repayment mortgages.

2.5.2 *Competitive landscape*

The UK mortgage market has become increasingly competitive since 2009. The six largest lenders accounted for 72 per cent. of gross mortgage advances in 2014 compared to 86 per cent. in 2009 (*Source: Council of Mortgage Lenders*). The decrease in market share of the top six lenders, which includes the Big Five and Nationwide Building Society, is due to the increasing shares of smaller lenders which have entered the top ten. The ten largest lenders and their respective shares of gross advances are Lloyds (19.8 per cent.), Santander (13.5 per cent.), Nationwide (13.2 per cent.), Barclays (10.0 per cent.), RBS (9.7 per cent.), HSBC (6.2 per cent.), Yorkshire Building Society (3.7 per cent.), Coventry Building Society (3.6 per cent.), Virgin Money (2.9 per cent.), and Clydesdale Bank (2.5 per cent.) (*Source: Council of Mortgage Lenders*). The competitiveness of the UK mortgage market is reinforced by an estimate by the BBA that 23 per cent. of current account customers had a mortgage from a lender other than the provider of their PCA (*Source: BBA – Promoting Competition in Mortgage Lending*).

Intermediaries play a significant and growing role in the UK mortgage market. As shown in Exhibit 2.5, intermediaries accounted for 55 per cent. of mortgage sales in 2013/14, rising from 48 per cent. in 2009/10. As a result, intermediaries enable smaller banks to compete for mortgage business on a national scale.

Exhibit 2.5: Proportional distribution of regulated mortgage sales by channel



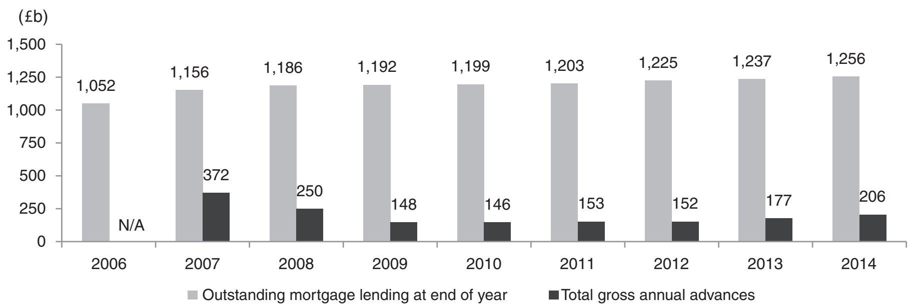
Source: Mintel; Note: Data covers the period 1 April to 31 March in each year.

The increased proportion of intermediaries as a key channel in 2013-2014 can be explained by two factors. First, an increase in mortgage lending throughout 2013 and 2014, combined with an increasingly diverse range of mortgage products offered by lenders, has fuelled demand for the advisory services offered by brokers. Second, the 2014 MMR shifted the responsibility for verifying income and assessing affordability for customers to the lender and has prohibited non-advised mortgage sales. As a result, lenders without sufficient in-house advisory capabilities have turned to intermediaries to provide such services (*Source: Mintel – Mortgages Intermediary Focus*).

2.5.3 *Key metrics*

The total value of outstanding mortgage balances in the UK was £1.3 trillion as at 31 December 2014, as shown in Exhibit 2.6. This figure has remained relatively stable over recent years, with a CAGR of 1.5 per cent. for the three years to 31 December 2014.

Exhibit 2.6: Total outstanding and gross new mortgage lending to individuals



Source: Based on Bank of England and FCA data.

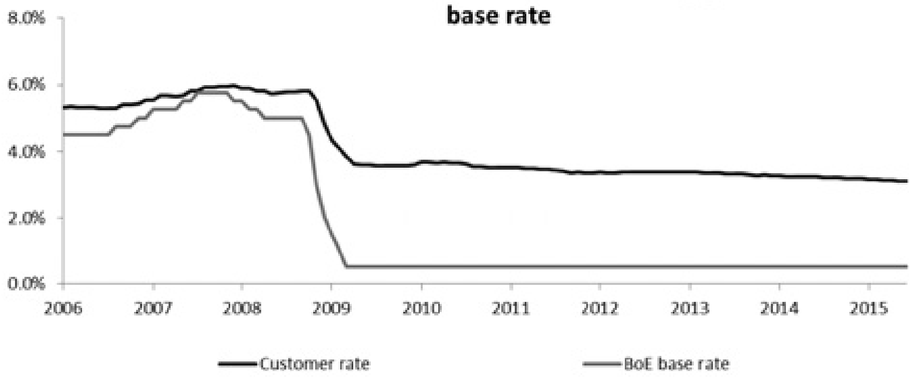
The slowdown in growth of total mortgage stock in the UK following the financial crisis can be explained by two factors. First, levels of gross new lending remained relatively stable between 2009 and 2012, as shown in Exhibit 2.6. Second, the Bank of England reports that a fall in the official bank rate from 5 per cent. to 0.5 per cent. between October 2008 and March 2009, with the rate since remaining at 0.5 per cent., may have caused households to repay more of their mortgage principal (*Source: Bank of England*). This increase in repayments would effectively counter-balance some of the gross new mortgage loans extended since 2009 (*Source: PRA and FCA – Mortgage Lenders and Administrators Statistics*).

The market for first-time buyers has seen a significant increase, with the number of first-time buyers rising to more than 300,000 in 2014, the highest since 2007 (*Source: Council of Mortgage Lenders*). This is partly the result of the UK Government's "Help to Buy" scheme which was launched in April 2013 and provides a shared-equity scheme (up to 20 per cent. of the property value) for first-time buyers with at least a 5 per cent. deposit. In March 2014 the scheme was extended until 2020.

2.5.4 *How banks make money from mortgages*

The key source of income for mortgage providers is the interest rate spread on mortgage loan balances. As shown in Exhibit 2.7, this spread has widened significantly since 2008 as the interest rate charged to customers has decreased at a significantly slower rate than the base rate, which is directly correlated to the funding cost for banks, suggesting an improvement in the overall profitability of mortgage lending. However, this spread has been under pressure more recently as banks seek to grow their mortgage portfolios. During the financial crisis, a proportion of revenue from this increased spread has been used in addressing the significant impairment charges incurred on loans during this period. The total UK financial institutions' mortgage impairments are shown in Exhibit 2.8.

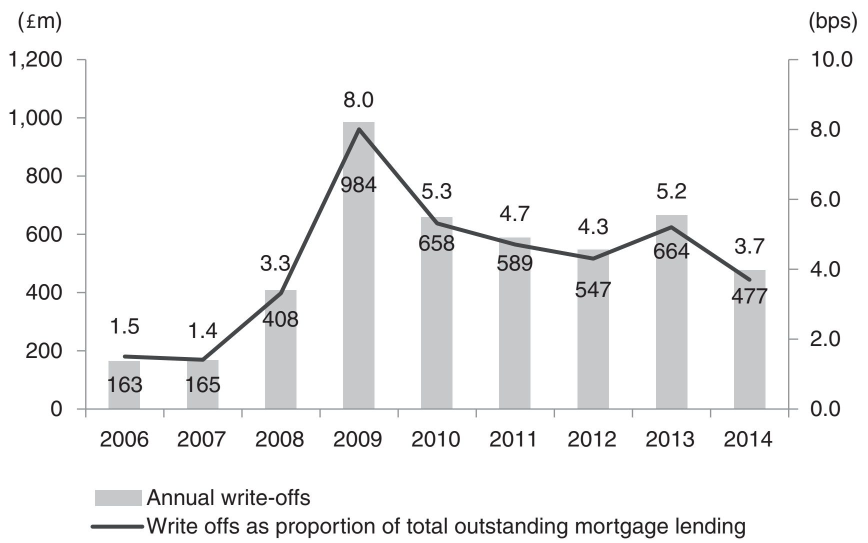
Exhibit 2.7: Customer rate for household mortgages and BoE base rate



Source: Based on Bank of England data.

There has been an overall improvement in both the annual amount of mortgage loans written-off and their proportion of total outstanding mortgage lending between 2009 and 2014, reflecting improved macroeconomic conditions and a more risk-adverse approach to mortgage lending.

Exhibit 2.8: Total annual amounts of write-offs for mortgage lending to individuals

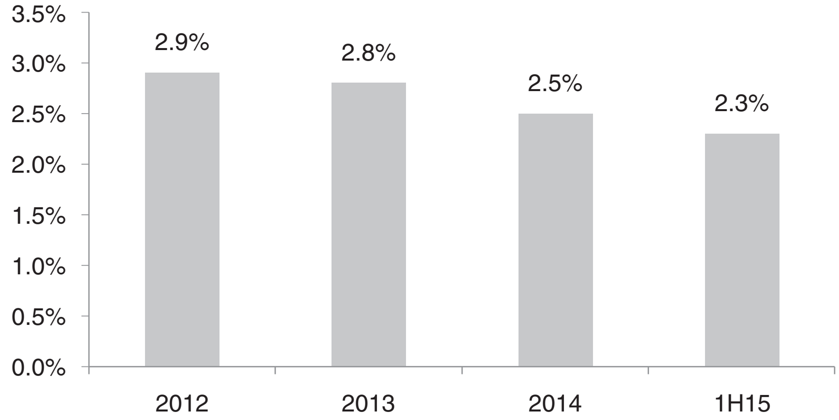


Source: Based on Bank of England data.

2.5.5 *Fixed rate mortgages*

The market average margin on fixed rate mortgages in the UK has gradually declined over the period from 2012 to the first half of 2015 as shown in Exhibit 2.9 below.

Exhibit 2.9: Fixed rate mortgages new lending margin over 2 year swap rate

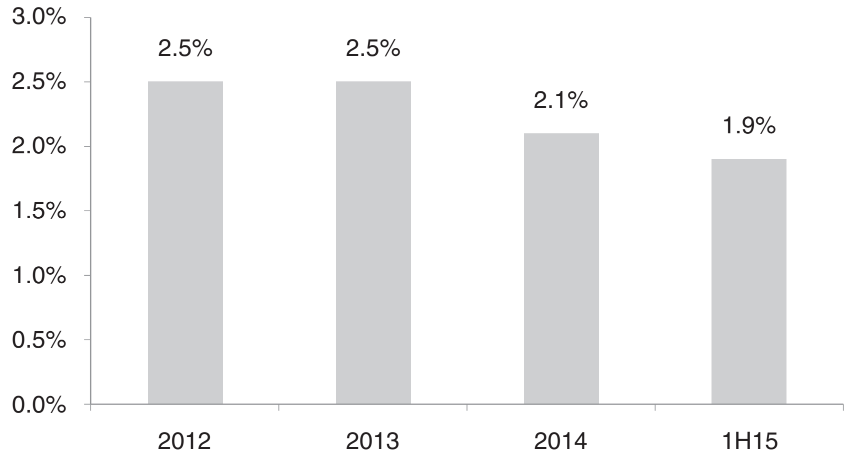


Source: Based on Bank of England, Reuters and Bloomberg data.

2.5.6 *Variable rate mortgages*

The market average margins on variable rate mortgages in the UK have also gradually declined between the period from 2013 to the first half of 2015, as shown in Exhibit 2.10 below.

Exhibit 2.10: Variable rate mortgages new lending margin over the Bank of England base rate



Source: Based on Bank of England data.

2.6 *Key products: personal loans*

2.6.1 *Introduction*

Personal loans allow customers to borrow a sum of money for a specified period of time without providing any collateral. The interest rate varies with loan value and term, as well as customer credit quality. As at June 2015, the average interest rate charged by UK banks for a £5,000 personal loan was 8.8 per cent. and 4.3 per cent. for a £10,000 personal loan *(Source: Bank of England).*

2.6.2 *Competitive landscape*

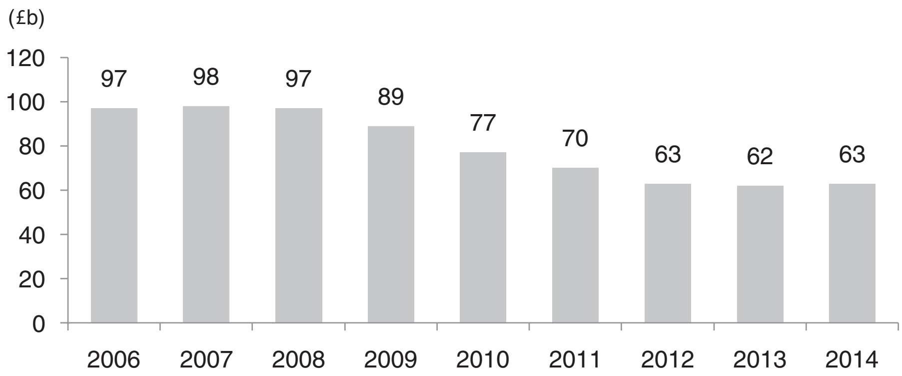
The UK personal loan market is relatively fragmented. The leading providers of personal loans, consisting of the Big Five, Clydesdale Bank, Yorkshire Bank, and Nationwide, account for approximately 60 per cent. of the personal loan market, with smaller lenders and specialist lenders accounting for the remainder *(Source: BBA – Unsecured Personal Loans*).

The ability to cross-sell personal loans from a PCA is an important factor in determining a bank's competitive position within the personal loan market. 42 per cent. of personal loan holders purchase the product from their PCA provider. New market entrants such as Sainsbury's Bank caused the Big Five to lose share of personal lending *(Source: Mintel – Personal Loans*).

2.6.3 *Key metrics*

The personal loan market can be measured in terms of total outstanding loan balances, as shown in Exhibit 2.11. Outstanding loan balances, including PCA overdrafts, dropped 35 per cent. from the average outstanding peak of £98 billion in 2007 to £63 billion in 2014.

Exhibit 2.11: Average outstanding personal lending to individuals including PCA overdrafts



Source: Based on Bank of England data.

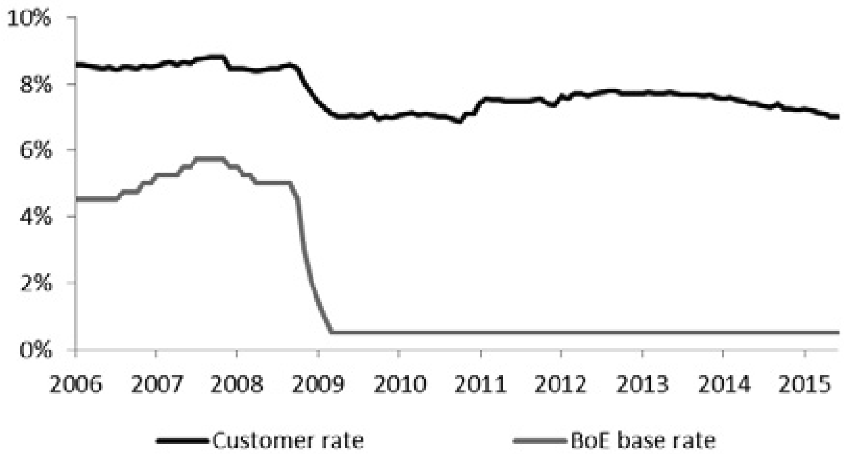
The decline in outstanding personal loan balances in 2008-2013 can be explained by changes in both consumer and lender preferences. As consumers sought to shift from consumption to savings amidst an uncertain macroeconomic environment, their appetite for personal loans decreased. At the same time, banks tightened their lending criteria as they sought to reduce their credit losses and to reduce the size of their balance sheets.

2.6.4 *How banks make money from personal loans*

Unsecured personal loans are associated with higher risk as there is no corresponding collateral and therefore they have higher interest rates than mortgages. As shown in Exhibit 2.12, customer rates (interest rates charged to customers) for unsecured loans fell from 8.57 per cent. in September 2008 to 7.02 per cent. in June 2015. Given the drop in the Bank of England base rate (which is directly correlated to the funding cost for banks) from 5 per cent. to 0.5 per cent. over the same period, banks have experienced an increased interest spread on personal loans between 2008 and 2015.

Although now a less common source of income, personal loans also generate a small amount of fee income, predominantly from penalties for late payments and, to a lesser extent, fees for early repayment.

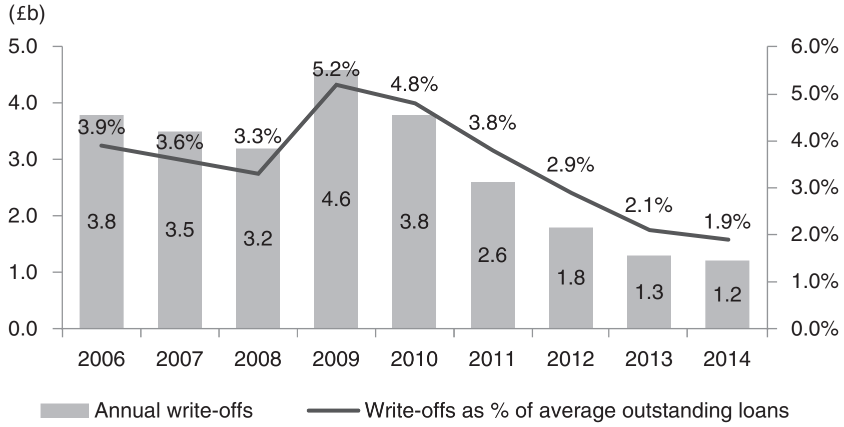
Exhibit 2.12: Customer rate for personal loans and the Bank of England base rate



Source: Based on Bank of England data.

Between 2008 and 2009, there was an increase in impairments on unsecured personal loans. The total amount of UK financial institutions' impairments is illustrated in Exhibit 2.13. Between 2009 and 2014, there has been a steady decline in both the annual amount of write-offs and their proportion of total outstanding personal loans. This reflects both improved macroeconomic conditions and the tightening of lending criteria by personal loan issuers.

Exhibit 2.13: Total annual amounts of write-offs for personal lending to individuals



Source: Based on Bank of England data.

2.7 *Key products: credit cards*

2.7.1 *Introduction*

Credit cards provide customers with a means of executing transactions along with an unsecured revolving credit facility. The main stakeholders in the credit card business are the card issuer (i.e. the issuing bank), card scheme (i.e. clearers of card payments), acquirer (e.g. arrangers of card transaction settlement), and merchant (i.e. retailer).

2.7.2 *Competitive landscape*

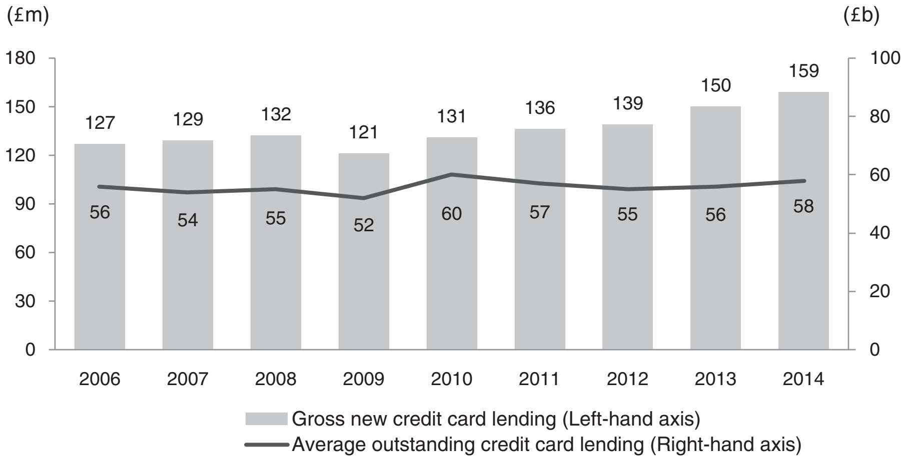
The wide range of participants in the UK credit card market include high street banks, building societies, and monoline card issuers. Estimates from May 2015 show that five providers account for 57 per cent. of the UK credit card market: Barclays (17 per cent.), Lloyds (17 per cent.), HSBC (11 per cent.), RBS (6 per cent.), and Santander (6 per cent.). The remainder of the market is fragmented between monoline providers such as Capital One, card issuers such as American Express, and retailer banks such as Tesco Bank, M&S Bank, and Sainsbury's Bank.

Market share also varies widely by region: 10 per cent. of card holders in Greater London have an American Express card compared to 5 per cent. of the whole of the UK, while in Yorkshire and the Humber, Yorkshire Bank has 2 per cent. share compared to 0.5 per cent. across the UK (*Source: Mintel – Credit Cards*).

2.7.3 *Key metrics*

There are nearly 60 million credit cards in issue in the UK, relating to 51 million accounts, of which 67 per cent. have outstanding balances (*Source: BBA – Statistics High Street Banking*). In December 2014, average outstanding balances stood at £58 billion, as shown in Exhibit 2.14.

Exhibit 2.14: Average outstanding and gross new credit card lending to individuals per year



Source: Based on Bank of England data.

Consumers in the UK have greater appetite to take on credit as the economy recovers. Exhibit 2.14 shows the annual amount of gross new lending extended to credit card holders (in millions of GBP). While outstanding credit card lending reflects the amount of revolving balances on existing lines of credit, gross new lending reflects the expansion or contraction of lines of credit, driven by the number of credit cards issued and their respective credit limits.

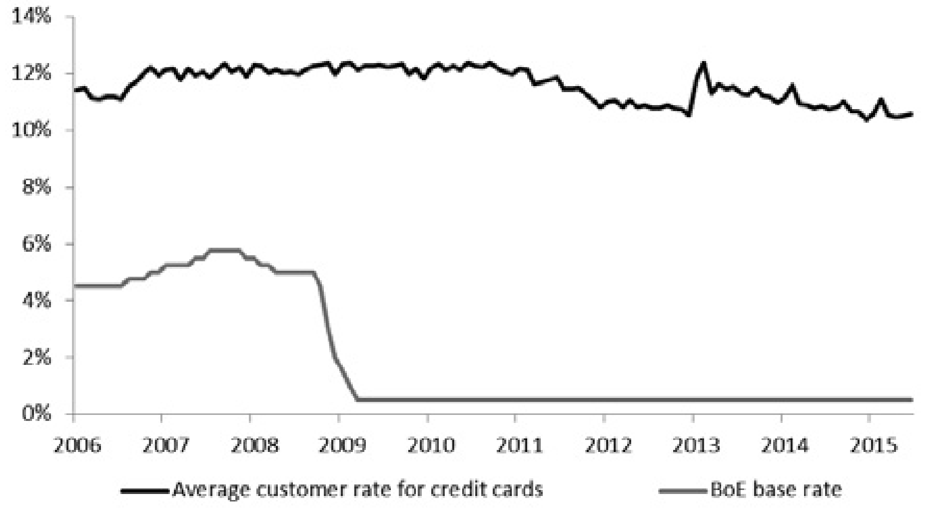
Both outstanding and gross new credit card lending declined between 2008 and 2009 as banks sought to reduce their LDRs and restrict capital commitments. However, new lending increased by a CAGR of 5 per cent. between 2010 and 2014 as providers re-entered the market to benefit from attractive margins and the improving economic environment.

2.7.4 *How banks make money from credit cards*

The primary source of income for credit cards is the spread between interest rates charged to customers and the funding cost for banks. In addition, issuers generate fees and commissions through interchange fees, late payment penalties, and card fees charged to consumers periodically.

Interest rate spreads on credit cards have increased as the average interest rate charged to customers on credit card balances fell from 12.1 per cent. in June 2008 to 10.6 per cent. in June 2015, at a slower rate of decline compared to the Bank of England base rate.

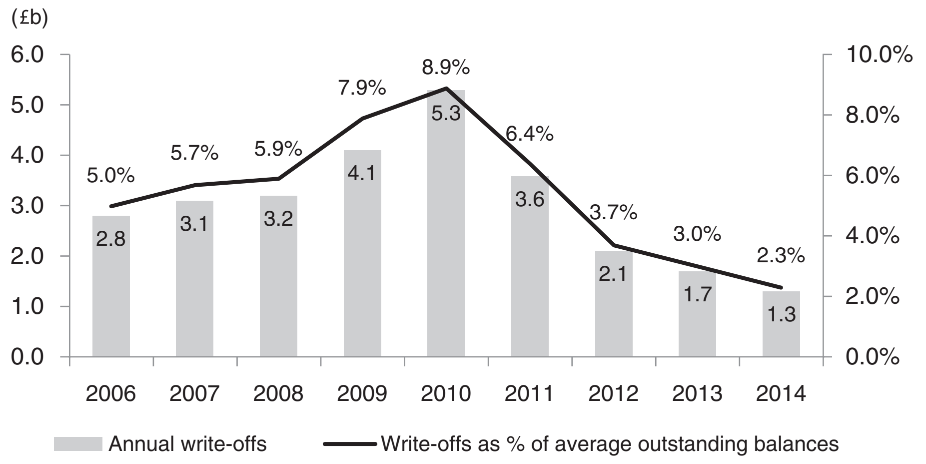
Exhibit 2.15: Customer rate for household credit card lending and the Bank of England base rate



Source: Based on Bank of England data.

During the financial crisis, banks incurred significant impairments on credit card loans. Impairments, as a percentage of total balances outstanding stood at nearly 9 per cent. of all credit card lending made in 2010. However, since 2010 there has been a steady decline in both the annual amount of write-offs and their proportion of total outstanding credit card loans, reflecting improved macroeconomic conditions, as shown in Exhibit 2.16 below.

Exhibit 2.16: Total annual amounts of write-offs for credit card loans to individuals



Source: Based on Bank of England data.

3. Introduction to SME Banking

SMEs are a large and vital part of the UK economy, constituting an important target segment for many UK banks. The traditional relationship between SMEs and their banks has been affected by the financial crisis as banks have become more risk adverse and businesses look for alternative forms of credit. Bank lending to SMEs continues to fall and new forms of lending will compete to regain the ground left behind by conventional bank financing. In addition to the liquidity squeeze, some SMEs choose not to seek financing from banks due to a combination of risk-aversion and the belief that lending is unavailable.

For more information on the risk faced by CYBG Group in connection with competition for financial services in the UK see "*Risk Factors – CYBG Group faces risks from the highly competitive environment in which it operates*".

3.1 ***The role of banks for SMEs***

Banks and other lenders provide financial products and services to organisations and businesses of all varieties and sizes. Customer needs in this segment vary by the size and type of businesses.

To address these needs, CYBG Group segments their business customers according to size and turnover:

- Micro, including sole proprietorships: CYBG Group defines these as businesses with no loans outstanding, with turnover less than £120,000. Many sole proprietorships and small businesses use PCAs for business purposes and therefore function similarly to a retail customer.
- Business Direct: CYBG Group defines these as businesses with outstanding lending of less than £0.1 million and turnover of less than £750,000.
- Small: CYBG Group defines these as businesses with loans of £0.1 million up to £0.25 million with turnover greater than £750,000 and up to £2 million.
- Commercial: CYBG Group defines these as businesses with loans of £0.25 million to £10 million, with turnover greater than £2 million.

There are many reasons why SMEs borrow. In 2014, 54 per cent. of loans were carried out to ensure adequate working capital, 27 per cent. to buy equipment and 25 per cent. to inject working capital (*Source: FSB – Voice of Small Business Report*). Products used by SMEs are principally current accounts, overdrafts, loans and credit cards.

Generally, banks generate a larger proportion of their revenue from fees in the commercial banking sector than in the retail sector.

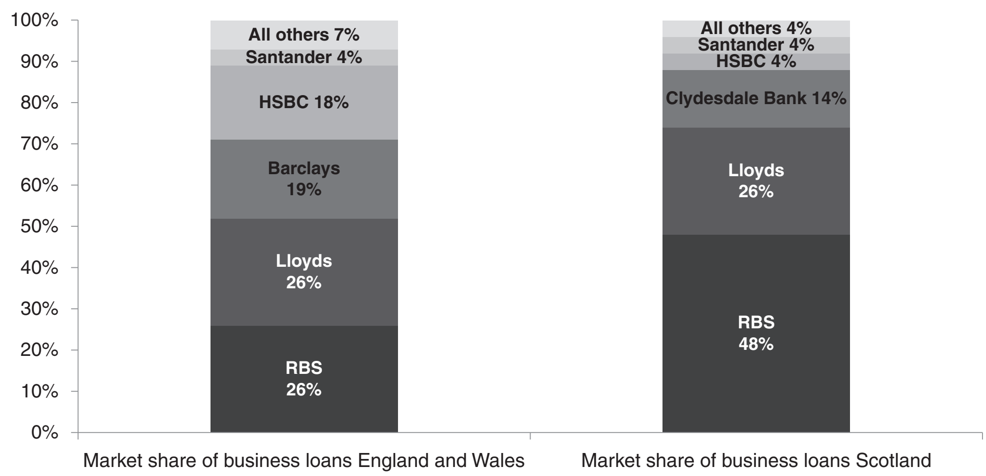
3.2 ***Main market participants***

The market for SMEs generates annual revenue of over £2 billion for banks and other lenders in the UK. It is highly concentrated, with the Big Five accounting for 93 per cent. of volume of business lending to SMEs in England and Wales in 2013. According to an October 2015 report, BCA market share is similarly concentrated, with the four largest banks accounting for 80 per cent. of active accounts. This concentration has been broadly stable for the last 5 years (*Source: CMA – Retail Banking Market Investigation*).

In Scotland, three banks (RBS, Lloyds and Clydesdale Bank) have accounted for 88 per cent. of lending to SMEs and accounted for 80 per cent. of SME BCAs in 2013. The market shares in England and Wales and Scotland have remained stable since 1999 (*Source: FCA and CMA market study – Banking Services to small and medium-sized enterprises*).

Although the UK market is generally stable, there have been successful entrants, such as Handelsbanken, which emphasises its branch network and local, face-to-face relationships. It now has 200 branches and £10 billion of business loans, the majority of which are to SMEs.

Exhibit 3.1: SME business loans market share 2013



Source: CMA FCA Banking Services to Small and Medium-Sized Enterprises.

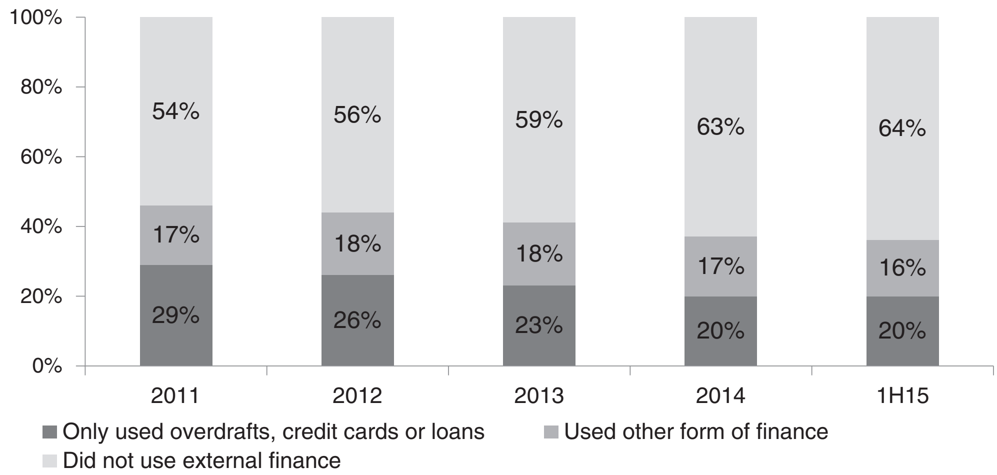
3.3 ***Access to finance***

The use of traditional banking products available to SMEs has declined. Overall, the use of any form of finance, referred to as "external finance", has declined in recent years across sectors, from 46 per cent. in 2011 to 36 per cent. in the first half of 2015. The decline in overdrafts, credit cards and loans is particularly significant (*Source: BDRC Continental SME Finance Monitor*).

Economic pessimism during the years following the financial crisis was reflected in fewer investment opportunities for businesses, which held more of their cash in deposits. Despite signs of economic recovery, some SMEs wanting to borrow were discouraged by the difficulty of applying for loans, or a perception that they would not be approved. In the fourth quarter of 2014, 79 per cent. of SME loans were approved, but only 33 per cent. of applicants assumed they would be successful (*Source: BBA*).

Due to the perception of loans being harder to obtain, fewer SMEs turned to external sources of finance. The use of traditional banking products such as overdrafts, term loans and credit cards has declined from 39 per cent. to 28 per cent. between 2011 and the first half of 2015.

Exhibit 3.2: How SMEs use finance 2011-1H15



Source: BDRC Continental SME Finance Monitor.

3.4 ***Use of bank financing***

SMEs also use non-banking sources of finance. Informal sources include loans from friends and family or personal savings. Formal sources include vendor financing, amongst others and recent innovations such as peer-to-peer lending, driven by digital technology. Although these newer channels remain small, they are growing (*Source: BBA – Promoting competition Report*).

49 per cent. of SMEs in the UK are considered "permanent non-borrowers", having neither borrowed for 5 years nor looking to borrow currently.

In a YouGov survey conducted in 2014, the most common reason cited from the options given for choosing not to borrow was the economic climate. One potential contributing factor is a deficit of trust. A survey by the Federation of Small Businesses found that only 16 per cent. considered banks to "care about small businesses". Excessive charges were the largest source of concern for SMEs in relation to their bank.

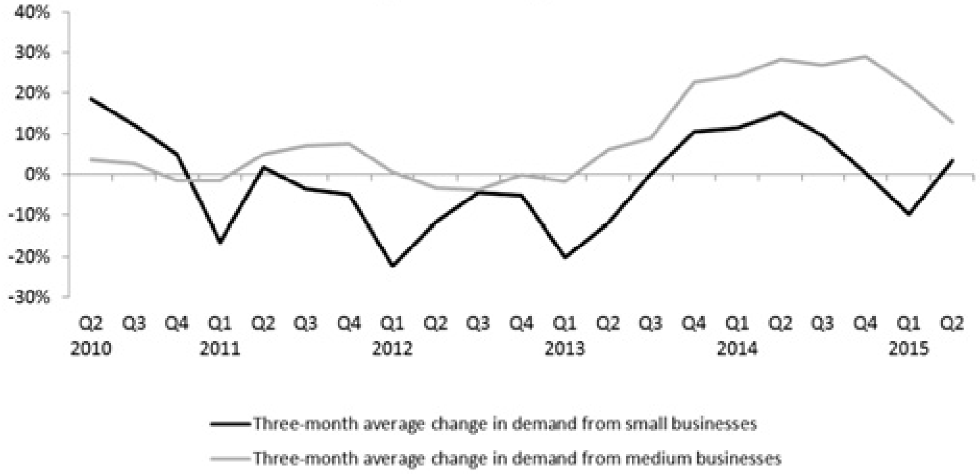
3.5 ***Trends in banking for SMEs***

Although demand for finance has increased since 2013, lending has been falling since 2011. This decline is in spite of the 2012 "Funding for Lending Scheme" (the "**FLS**"), in which the Bank of England attempted to boost lending to households and companies by providing funding to banks and building societies at a lower cost.

3.5.1 *SME demand*

After a period of decline, demand for lending from medium sized enterprises has grown since the second quarter of 2013. This demand has gone largely unmet, representing a gap in the market for lenders. Demand from small businesses has also grown over this period, with the exception of the first quarter of 2015. Unlike medium-sized businesses, small businesses have reported that their demand has mostly been met since 2011 (*Source: YouGov – SME Banking Report*).

Exhibit 3.3: Reported change in demand for loans

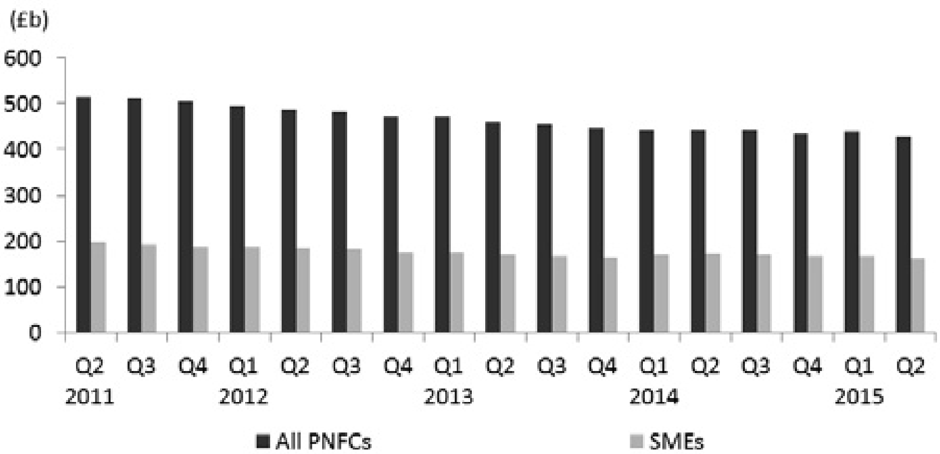


Source: Based on Bank of England data.

3.5.2 *Lending to SMEs*

Lending to all private non-financial companies ("**PNFCs**") in the UK has declined since the second quarter of 2011 by a total of 17 per cent. Lending to SMEs has also experienced a downward trend, as shown in Exhibit 3.4.

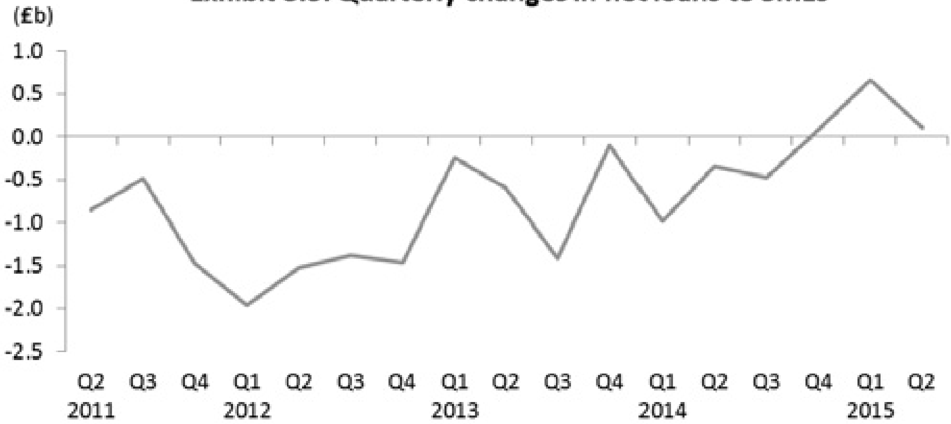
Exhibit 3.4: Total outstanding loans to UK PNFCs



Source: Bank of England.

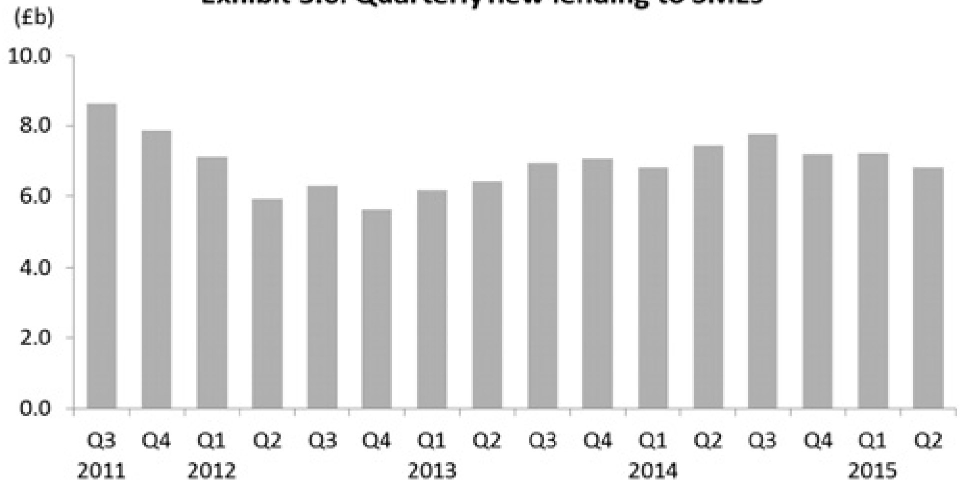
There are tentative signs of market recovery. First, the decline in loans outstanding slowed in the final three quarters of 2014 and began expanding in 2015, as shown in Exhibit 3.5. Secondly, total new lending to SMEs has remained broadly stable over the last two years, as shown in Exhibit 3.6.

Exhibit 3.5: Quarterly changes in net loans to SMEs



Source: Bank of England.

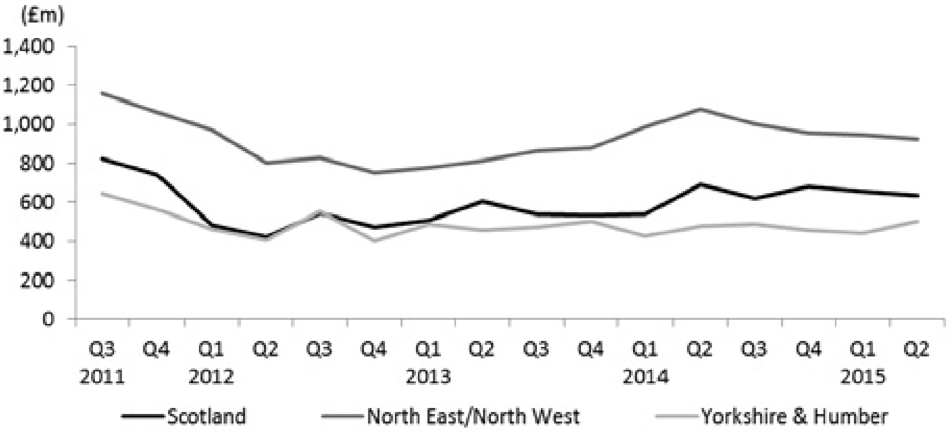
Exhibit 3.6: Quarterly new lending to SMEs



Source: British Banking Association.

As shown in Exhibit 3.7, the core regions reflect a tentative improvement in the value of new lending to SMEs. More positive trends in Scotland, the North East and North West have emerged since 2011, with a less buoyant new lending market in Yorkshire and the Humber.

Exhibit 3.7: Quarterly total value of facilities approved

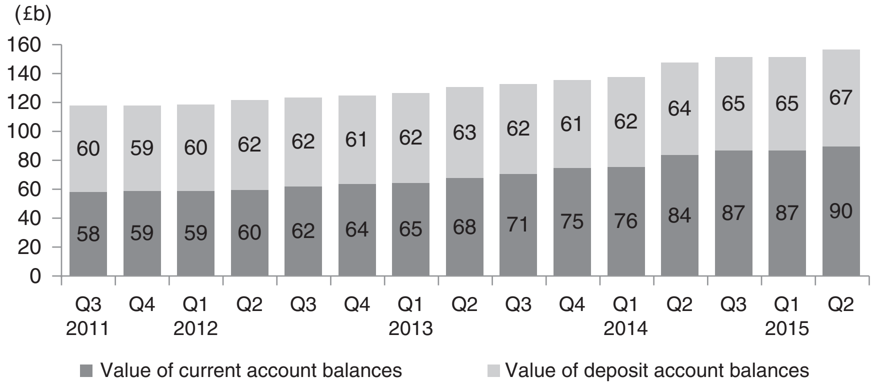


Source: British Banking Association.

3.5.3 *Deposits from SMEs*

During the challenging economic period post 2011, deposits from both small and medium-sized businesses grew.

Exhibit 3.8: Total deposits from SMEs



Source: British Banking Association.

3.6 *Distribution channels*

The main distribution channels used by SMEs are branches, online channels and by telephone (*Source: YouGov*). Relationship managers, who have an understanding of each business, provide a single point of contact for larger SMEs (*Source: YouGov – SME Banking*). SME customers use multiple channels, preferring digital options for simple interactions and using personal interaction for more complex banking needs (*Source: YouGov*).

Personal contact and branch banking are important to SMEs. The largest SMEs place significant value on personal service and face-to-face contact from banks. 54 per cent. of SME customers visit a branch at least once a month and SMEs' most preferred means of communication with a bank is over the telephone with a branch employee. 31 per cent. of SME customers in Northern England and 30 per cent. of customers in Scotland conduct business at a branch at least once a week. On average, SME customers in both regions consider that branches will continue to be important to a greater extent than customers in other regions in the UK (*Source: YouGov – SME Banking Data*).

A strong digital presence is important for SME customers. They make frequent use of online banking, with 81 per cent. of them interacting with their banks online, 39 per cent. on a daily basis. SMEs overwhelmingly consider digital banking to be the channel most likely to grow in importance in the next year (*Source: YouGov – SME Banking Data*).

3.7 *Customer behaviour*

85 per cent. of SMEs prefer to receive all of their banking services from a single provider (*Source: YouGov – SME Banking Data*).

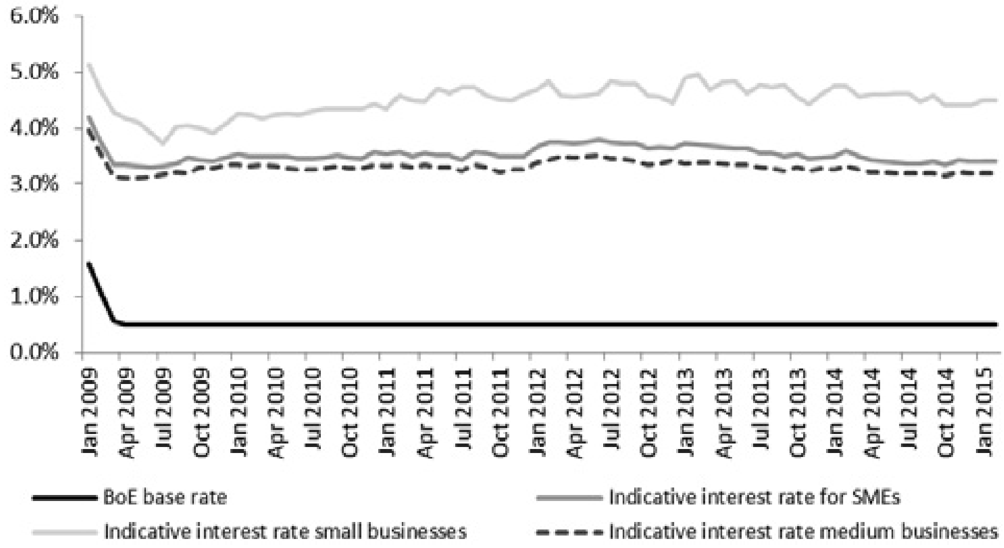
Satisfied customers are generally loyal to their banks, remaining with them for many years, with many new entrants in the provision of BCAs having higher satisfaction scores relative to their larger and longer-established peers. However, when changing providers, SMEs are most concerned about price and the availability of free banking and also consider a good relationship and the ability to speak to an employee as the most important factors (*Source: YouGov – SME Banking Data*).

There is considerable correlation between PCAs and BCAs. 31 per cent. of SMEs use a PCA as their main bank account and SMEs commonly open a BCA account with the bank they hold a PCA, benefitting banks with strong retail and SME propositions (*Source: YouGov – SME Banking Data*).

3.8 *Spreads on lending*

The spread between average interest rates for SME lending and the Bank of England base rate (which has a direct correlation to a bank's funding cost) has been steady since mid-2009 at an average of 3 per cent. Medium-sized enterprises have a lower spread at 2.8 per cent. while smaller enterprises are higher, at an average of 4 per cent.

Exhibit 3.9: Spread of indicative interest rate to SMEs over BoE base rate



Source: Based on Bank of England data.

Spreads for SMEs are higher than for retail mortgages reflecting the more complex risk factors and higher cost to serve. A 2013 Bank of England study found that secured household loans in the retail sector have a rate of forbearance of approximately 5 to 8 per cent. of their total value, whereas SMEs had a rate of 14 per cent.

Research suggests that banks and other lenders perceive SMEs to be higher risk than they actually represent. A 2013 UK Government study found that rejection rates for low and medium risk firms increased at a faster rate after 2009 than for high risk firms (*Source: BIS Evaluating Changes in Bank Lending to UK SMEs*).

3.9 *Asset and invoice finance*

Asset and invoice finance are fast-growing banking products. Unlike the BCA market, challenger banks have a considerable market share of these products, particularly in asset finance.

3.9.1 *Asset finance*

Asset finance typically involves a business paying a regular charge for the use of an asset over an agreed period of time. The most common types of asset finance are: (i) leasing, where the customer rents new equipment without owning the asset; and (ii) hire purchase, which allows the customer to buy equipment on credit.

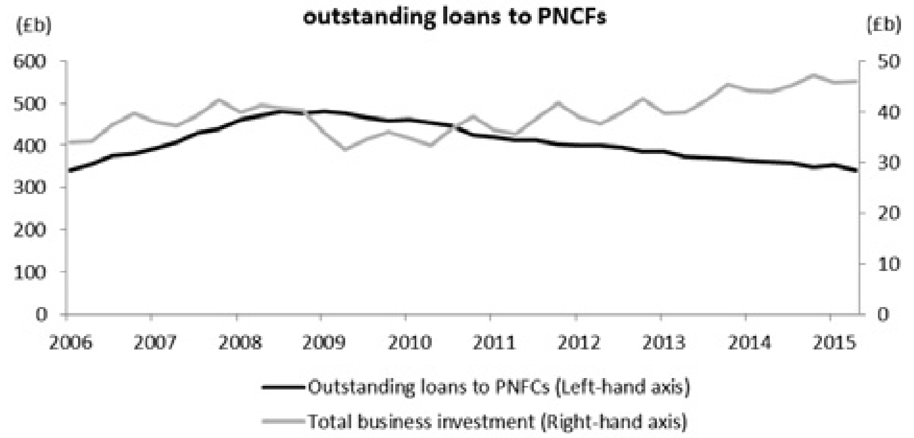
3.9.2 *Invoice finance*

Invoice finance involves businesses raising cash against as yet unpaid customer invoices. The most common types of invoice finance are: (i) factoring, where the provider interacts with a business' customers to receive payments owed, takes over the sales ledger and manages the credit control whilst receiving a percentage of the value in return; and (ii) discounting where the provider maintains the sales ledger and invoice processing but does not directly interact with the business' customers. Invoice finance typically earns a greater proportion of its income from fees than does asset finance.

3.9.3 *Background to growth of asset and invoice finance*

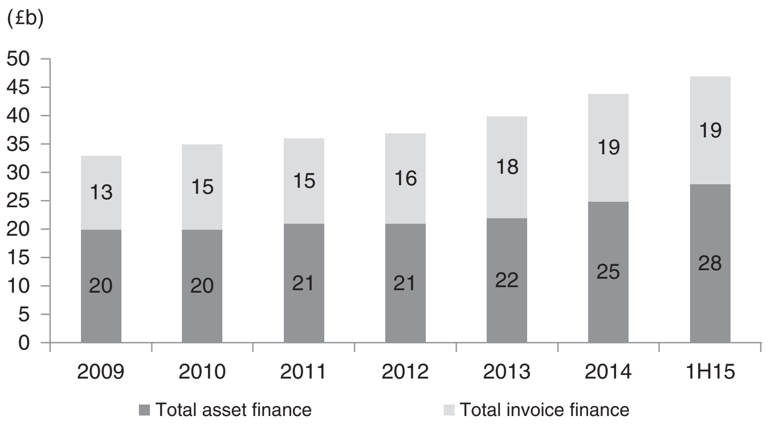
Since 2009, lending to PNFCs has consistently fallen each year, as shown in Exhibit 3.10. BIS forecasts a cumulative credit funding gap, the gap in businesses' access to funds, of £84 billion to £191 billion between 2013 and 2018 *(Source: Department for Business Innovation and Skills Boosting Finance Options for Businesses*). In addition, UK business investment has been steadily rising since 2009 albeit moderately seasonal. Alternative sources of financing such as asset and invoice finance have expanded over 2009 to the first half of 2015, growing by a CAGR of 6 per cent. and 7 per cent. respectively as shown in Exhibit 3.11.

Exhibit 3.10: Comparison of business investment and outstanding loans to PNCFs



Source: Office of National Statistics, Bank of England.

Exhibit 3.11: Loan balances for asset and invoice finance



Source: FLA and Asset-Based Finance Association.

3.9.4 *Structure of the asset and invoice finance industry*

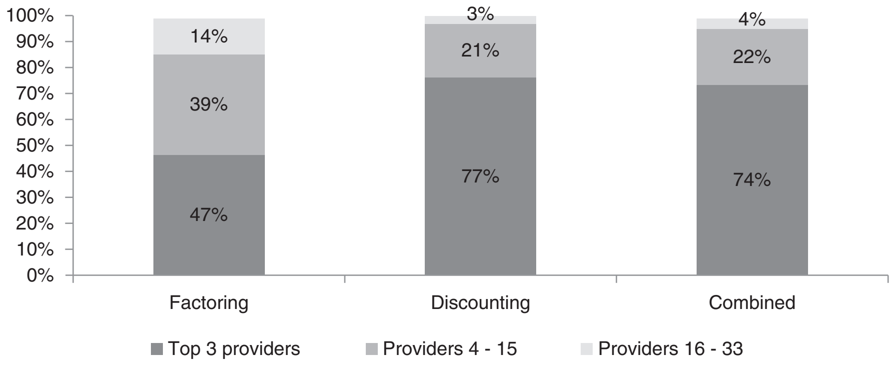
The asset and invoice finance industry comprises of three different types of participants:

- *Big Five high street banks*: these banks typically focus on larger business customers.
- *Original equipment manufacturers and vendors*: examples are General Electric and Siemens. They offer financing as part of their sales process and typically to large customers.
- *Challenger banks and niche specialists*: other banks such as Aldermore and Close Brothers, as well as specialists such as Bibby or Lombard. They focus on SME customers, and some on certain product types only.

For asset finance, there are 66 companies registered with the Finance and Leasing Association ("**FLA**"). The market overall is relatively fragmented, with the four largest banks having a 65 per cent. share of the market by value of loans. As a result smaller banks have a greater prominence in asset finance than in traditional lending.

In contrast to asset finance, the Big Five have a leading market share for invoice finance. Of the 33 invoice finance providers registered with the Asset-Based Finance Association, the top three banks of the Big Five who provide invoice financing (RBS, Lloyds and Barclays) occupy 47 per cent. market share for factoring and 77 per cent. for discounting. Combined, they have 74 per cent. market share. In the overall market, the next 12 providers (including Santander with 2.2 per cent. of the market) have 22 per cent. market share, and the remaining providers have only 4 per cent. share. Some providers such as Clydesdale Bank and Yorkshire Bank only operate in the discounting market, of which they have a combined market share of 2 per cent., whilst other such as Pulse Cashflow Finance or Ashley Commercial Finance only operate in factoring.

Exhibit 3.12: Market share of invoice finance by loan value



Source: Business Money.

3.9.5 *Asset finance market*

Asset finance is predominantly used to finance vehicles, with car and commercial vehicle equating to 54 per cent. of the market. The next significant segment is plant and machinery which equates to 20 per cent., while the other key categories, namely business equipment finance, IT equipment finance, aircraft ships and rolling stock finance constitute 8, 7 and 2 per cent. of the market respectively.

3.9.6 *Invoice finance market*

The number of invoice finance clients has remained relatively stable in recent years, witnessing a slight decline since 2006.

By industry, the main market segments (manufacturing, distribution and services) have grown at a rate of 1.1 per cent. per annum since 2010.

When segmenting customers by turnover, there is a divergence in customer growth trends. On aggregate the number of customers with turnover of less than £10 million has grown by 1 per cent. per annum since 2010, whereas customers with turnover of greater than £10 million grew at an annual rate of 9 per cent. This pattern of divergence in growth rates is also apparent in the aggregate balances by turnover bandings. However, the growth rates in advances at the individual customer level were relatively flat or reducing; the exception being customers in the £50 million to £100 million turnover bracket, who increased borrowings on average by 4 per cent. per annum.

PART 2
INFORMATION ON CYBG GROUP

1. Overview

With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers, through its strong local community brands Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million were business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts).

CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under a TSA until CYBG Group's planned separation is fully implemented. CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer behaviour and preferences for omni-channel interactions.

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. The Directors believe that CYBG Group's balance sheet is now more resilient and strongly capitalised, which together with the capital protection provided by the Capped Indemnity package, provides a strong foundation to support CYBG Group's targeted future growth. Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring.

The Directors believe CYBG Group has the key strengths and capabilities to enable its experienced leadership team to execute the strategy as set forth herein.

2. History

CYBG Group has a long track record of serving the needs of customers in its core regions.

Set out below are key milestones in CYBG Group's development.

1838	**Clydesdale Bank founded in Glasgow, Scotland**
1859	**Yorkshire Bank founded in Halifax, West Yorkshire, England**
1877	**Clydesdale Bank establishes London presence**
1911	**Yorkshire Bank incorporates as The Yorkshire Penny Bank Limited**
1920	**Midland Bank buys Clydesdale Bank**
1987	**NAB acquires Clydesdale Bank**
1990	**NAB acquires Yorkshire Bank**

2001 **Clydesdale Bank and Yorkshire Bank's banking licences are merged pursuant to the National Australia Group Europe Act 2001, a UK Private Act of Parliament** – Following from this act, in 2004, Clydesdale Bank assumed all assets, rights, liabilities and obligations of Yorkshire Bank, with integration efforts resulting in a single brand-agnostic operating platform with two distinct marketing brands maintained in recognition of their strong regional presence.

2012 **Strategic review to simplify business and operating model conducted; commercial real estate ("CRE") book transferred to NAB –** Business restructured and positioned to capitalise on its strengths and focus on retail operations and SME business lending across core regions.

2013 **"We care about here" rebranding campaign and launch of mobile banking –** The brand re-launch reinforced CYBG Group's commitment to customer service

2014 **New concept branches, new service proposition and increased digital functionalities introduced**

2015 **First polymer banknotes in Great Britain issued by Clydesdale Bank**

2015 **CYBG Group's demerger announced and NAB announces intention to exit the UK retail banking market**

The Demerger involves the proposed restructure of NAB in conjunction with the Global Offer, as described in Part 13: "*Details of the Demerger and Company Capital Reduction*." As a result of the Demerger and the Global Offer, CYBG Group will operate its business separately from NAB as a standalone bank (other than by virtue of certain limited services arrangements under the TSA described in Part 14: "*Additional Information – Material Contracts – Transitional Services Agreement*").

3. Strengths

The Directors believe that CYBG Group has the following key strengths:

- Long established franchise in its core regional and selected national markets
- Strong local community brands
- Standalone, scalable and full-service operating platform
- Profitable with a resilient and strongly capitalised balance sheet
- Experienced leadership team

3.1 *Long established franchise in its core regional and selected national markets*

CYBG Group operates from a strong, existing franchise position in its core regions with a track record of growth. As at 30 September 2015, CYBG Group had 2.6 million retail customers and 179,000 SME customers.

CYBG Group has strong market shares in its core regions, in particular:

- An estimated 9.1 per cent. share of the PCA market by balances in its core regions (compared to 3.1 per cent. in the UK) (*source: CACI Market Share Data as at 31 July 2015*). As at 30 September 2015, CYBG Group had total PCA balances of £6,944 million;
- An estimated 3.8 per cent. share of the personal variable rate savings account and fixed rate term deposit market by balances in its core regions (compared to 1.3 per cent. in the UK) (*source: CACI Market Share Data as at July 2015*). As at 30 September 2015, CYBG Group had total personal variable rate savings account balances of £6,013 million and total personal fixed rate term deposits of £4,519 million;
- An estimated 14 per cent. share of the BCA market by number of accounts in Scotland (*source: CMA Review, Banking services to small and medium sized enterprises, July 2014*) (compared to 1.4 per cent. in the UK by balances as at 30 June 2015 (*source: Bank of England data*)). As at 30 September 2015, CYBG Group had total BCA balances of £6,038 million;

- An estimated 8.1 per cent. share of the SME business lending market by balances in its core regions (compared to 3.6 per cent. in the UK) (*source: BBA 1Q2015 SME lending, as at 31 March 2015*). As at 30 September 2015, CYBG Group had total SME business lending balances of £7,061 million; and
- An estimated 3.9 per cent. share of the mortgage market by balances in its core regions (compared to 1.6 per cent. in the UK), with total mortgage balances of £20,504 million (*source: CML Market Share Information as at 30 September 2015*, with regional market share based on availability of regional loan data for 73 per cent. of the UK market).

3.1.1 *Long established retail banking franchise position*

CYBG Group has a strong existing retail banking franchise position across a range of products including PCAs (£6.9 billion), mortgages (£20.5 billion), personal variable rate savings accounts and personal fixed rate term deposits (£10.5 billion), personal loans (£0.8 billion) and credit cards (£0.4 billion), in each case as at 30 September 2015.

CYBG Group has demonstrated recent success in attracting new PCA customers following a period of sustained marketing activity with 88,511 new PCA accounts opened in the year ended 30 September 2015 (with 47,922 new PCA accounts opened in the six months ended 31 March 2015 and 40,589 opened in the six months ended 30 September 2015), an increase compared to 77,493 opened in the year ended 30 September 2014 (with 41,274 new PCA accounts opened in the six months ended 31 March 2014 and 36,219 opened in the six months ended 30 September 2015). Of the customers acquired during the year ended 30 September 2015, 81 per cent. were new to CYBG Group and 46 per cent. were aged between 26 and 45, consistent with CYBG Group's aim to acquire customers among younger, more affluent demographics with the potential for long-term sustainable relationships and higher income families with children.

CYBG Group delivers its retail banking services through an omni-channel distribution proposition, including branch, intermediary and digital channels.

Branch Network

In December 2014, CYBG Group had branches in seven out of the top ten retail sites in Great Britain (per Cushman & Wakefield Retail Centre Rankings). CYBG Group's branch network, together with its other distribution channels, provides an established platform from which to serve existing retail customers and pursue new customer acquisition opportunities.

As set out in the table below, CYBG Group customers use its branch and direct network (includes digital and telephony) more than the market average (*source: GfK Financial Research Survey*) based on a survey of 26,837 adults interviewed.

For the six months ended 30 September 2015	**Clydesdale**	**Yorkshire**	**Market**
		%	
Branch only	46	50	33
Branch & direct	33	28	39
Direct only	21	22	28

CYBG Group is responding to customers' changing needs by redesigning its branch layouts and reorienting the traditional teller/customer interaction toward a more digital experience. CYBG Group has launched in-branch tablets that provide account information, which are being piloted with transaction execution capabilities and has introduced Wi-Fi in its branches. CYBG Group opened four new concept branches in 2014, which offer full interactive IT set ups alongside customer lounges. These branches allow customers to transact quickly or self-serve via ATMs and digital interactive media, such as iPad tablets.

In addition to digital innovations, CYBG Group has announced plans to further enhance and optimise its branch network. The plan includes extensive refurbishment projects in selected flagship and key branches in line with CYBG Group's overall distribution strategy. As part of these plans, CYBG Group has completed 24 branch closures for the period from 31 March 2015 to 30 September 2015.

Intermediary Mortgages Channel

CYBG Group has a proven track record of more than eleven years of originating mortgages through its third-party distribution channel of mortgage intermediaries. CYBG Group employs an "invitation only" approach to establishing and operating its mortgage intermediary panel in order to maintain the high quality of its intermediary relationships and customer service. CYBG Group also employs a team of experienced business development managers to manage its relationships with mortgage intermediaries. CYBG Group's relationships with its intermediaries allow for geographic diversification of its mortgage portfolio across the UK. By working with these intermediaries, CYBG Group has extended its national reach and diversified its mortgage portfolio to areas outside of its core regions, with 86 per cent. of intermediary gross stock balances outside of the core regions and 48 per cent. of its total mortgage book secured by property in the South of England as at 30 September 2015. CYBG Group has a national market share of approximately 3 per cent. of gross new intermediary mortgage lending (*source: estimate based on 60 percent of market from CML Regulated Mortgage Survey for the year ended 30 September 2014*). As at 30 September 2015, approximately 59 per cent. of CYBG Group's mortgages by balances were secured by properties located outside its core regions, an increase from 49 per cent. as at 30 September 2012.

CYBG Group's mortgage lending through the intermediary channel has enabled it to grow its loan portfolio at above-market rates. Gross new intermediary mortgage lending has increased from £2.1 billion for the year ended 30 September 2012 to £3.6 billion for the year ended 30 September 2014 and £3.7 billion for the year ended 30 September 2015, representing a CAGR of 21.1 per cent., compared to a market CAGR of 13.0 per cent. over the same period for overall gross new lending. CYBG Group has established relationships with intermediaries, approximately 65 per cent. of whom it has conducted business with for more than four years. For the year ended 30 September 2015, 74.1 per cent. (or £3.7 billion) of CYBG Group's gross new mortgage lending was originated through intermediaries, compared to 18 per cent. for branch originations. These relationships have enabled CYBG Group to leverage its existing mortgage infrastructure, including risk management, at a low marginal cost of origination, to provide a cost-effective way of achieving mortgage portfolio growth and a greater geographical reach in line with CYBG Group's strategy.

In addition, as set out in the table below, the intermediary mortgage origination has provided a different demographic exposure compared to mortgages originated through the proprietary channels:

	As at 30 September 2015	
	Intermediary	**Proprietary (branch and private bank)**
	(£)	
Average customer annual income	137,000	63,000
Average mortgage balance	287,000	194,000

As at 30 September 2015, only 1 per cent. of CYBG Group's mortgages had an indexed LTV ratio of more than 90 per cent., and the average indexed LTV of CYBG Group's mortgage portfolio was 55.3 per cent.

Digital

CYBG Group's digital platform is rapidly evolving with development in recent years focused on bringing CYBG Group's capabilities closer to parity with peers.

CYBG Group offers online and mobile banking to its customers, and they are the two fastest growing distribution channels for CYBG Group. In September 2015, CYBG Group launched full online PCA account opening capability for customers. CYBG Group has minimised the number of options to be completed alongside auto population of data, increasing the speed with which a customer can open and access the account.

In the year ended 30 September 2015, CYBG Group had 689,000 retail internet banking registrations and 284,000 new mobile banking registrations. In that year, CYBG Group also had approximately 14,000 business online users and approximately 47,000 business internet banking registered users. During September 2015, over 6.5 million mobile banking customers logged in. CYBG Group has increased retail sales through digital channels, with approximately 41.5 per cent. of total gross new lending for personal loans originated through digital channels in the year ended 30 September 2015. Personal lending through the digital channel is supported by the web-based personal loan platform which provides CYBG Group with greater access to national markets.

In addition to direct digital channels, CYBG Group has increased the use of aggregator channels with loans, mortgages, credit cards, PCAs and BCAs for both Clydesdale Bank and Yorkshire Bank brands marketed through 21 external websites as at 30 September 2015, which facilitate price comparisons and increase national visibility. CYBG Group was named "Best First Time Buyer provider" in 2014 and 2015 for mortgages by online aggregator Moneyfacts and achieved Moneyfacts outstanding status for five year fixed rate mortgages and its two year fixed rate mortgage offer. Additionally, Yorkshire Bank won the 2014 Your Mortgage Award for "Best Regional Lender."

CYBG Group expects to roll out a video conference capability in branch, which together with an assisted webchat function at home, will increase its use of co-browsing and screen-share technology. CYBG Group has also integrated social media usage into its assisted digital capabilities, further facilitating out of branch interaction with customers.

3.1.2 *Strong existing SME franchise position*

CYBG Group provides its SME customers with a full range of products and services across an £8.8 billion business deposit portfolio as at 30 September 2015, which consists of BCAs (£6.0 billion), variable rate savings accounts (£1.8 billion) and fixed rate term deposits (£1.0 billion). CYBG Group also provides its SME customers with a range of lending products and services across a £7.1 billion portfolio as at 30 September 2015, which consists of term lending (£5.1 billion), overdrafts (£1.2 billion) and working capital solutions (including invoice, trade and asset finance products, £0.8 billion), with an average deposit balance of £42,000. In addition, CYBG Group offers its business banking products and services to larger corporate businesses where it has the sector expertise, experience or relationships to do so competitively. For the period from 31 December 2014 to 30 September 2015, CYBG Group increased its rate of recruitment of small business new BCA accounts from 2,161 BCA accounts opened in the three months ended 31 December 2014 to 4,311 opened in the three months ended 30 September 2015. As at 30 September 2015, 54 per cent. of CYBG Group's business customers had been business customers with CYBG Group for more than ten years.

CYBG Group's private banking proposition is complementary to the business banking franchise. It is a fee based service targeted at higher net worth customers, in particular business owners and professionals, providing tailored solutions to meet their financial requirements. As at 30 September 2015, new to bank private banking customers had an approximate average mortgage balance of £318,600 and an approximate average deposit balance of £84,400 as compared to £121,900 and £5,700, respectively for new to bank retail customers (excluding intermediary). CYBG Group delivers its business and private banking services through a relationship management proposition that provides customers with access to a personal relationship manager and specialist advisers as needed.

CYBG Group offers a differentiated SME proposition through dedicated relationship managers supported by product and sector specialists. As at 30 September 2015, CYBG Group had 325 business and commercial banking relationship managers with an average of 11 years of experience with CYBG Group and 97 private banking relationship managers with an average of 19 years of experience. This customer-focused approach includes access to sector and product specialists. The sector specialism is delivered through 177 specialist and acquisition finance staff (including 69 relationship managers plus associate directors, growth finance, origination directors, National Business Service advisers and management) and 70 sector specialists (including 50 agriculture relationship managers plus 12 other sector specialists and 8 CRE specialists), combining sector expertise with specialist business knowledge to deliver solutions to meet customer needs. The product specialists consist of an additional 183 working capital staff (including asset finance (46), invoice finance (69) and other (including payments and treasury solutions, 68)). CYBG Group has also created an emerging technology unit which targets high growth early stage technology companies backed by business angel syndicates, venture capitalists and private equity funds.

Clydesdale Bank holds the third largest share of BCAs in Scotland (*source: CMA Review: Banking services to small and medium sized enterprises, October 2015*). CYBG Group offers full business and private banking services at its business and private banking centres. As at 30 September 2015, CYBG Group operated 40 business and private banking centres, including 28 that are co-located with retail branches and 4 regional customer service hubs, restructured from 72 business and private banking centres as at 30 September 2012. CYBG Group's refocused business and private banking centres are an important means of delivering its relationship-management based service to business and private banking customers. The Directors believe that the ability to bank at a branch or other location with personal contact is an important factor for SME customers in selecting where and how they bank, with 31 per cent. of SME customers in Northern England and 30 per cent. of SME customers in Scotland conducting business at a branch at least once a week (*source: YouGov SME Banking 2014 Data*). The Directors believe that integrated business, private banking and retail centres provide an opportunity to meet a broader range of customers' needs, improve operational efficiencies as well as enhance community visibility, staff engagement, and customer service continuity.

As at 30 September 2015, CYBG Group served approximately 51,000 business customers through the Business Direct channel. CYBG Group's Business Direct proposition is relationship banking for small business customers delivered through 79 centrally based, experienced, relationship managers via telephone that have access to a complementary digital platform enabling an integrated approach to banking. The customer to relationship manager ratio, based on lending customers and analysed by level of customer exposures, was approximately 500 customers per relationship manager for customers with lending of more than £50,000 and approximately 650 customers per relationship manager for customers with lending of less than £50,000 as at 30 September 2015.

CYBG Group's customer relationships and stable business deposit franchise support a balanced SME lending book across a variety of sectors. Within the SME loan portfolio, the only industry sector as at 30 September 2015 that represented more than 12 per cent. of total customer loans was the £1.7 billion exposure to the agriculture (soft commodities) sector, in which CYBG Group has a lending history of over 100 years. The agriculture portfolio is balanced and diversified across the following sectors as at 30 September 2015: beef or sheep (26 per cent. of the total), arable (27 per cent.), dairy (21 per cent.), agricultural services (13 per cent.) and other (13 per cent.), comprised of poultry, pig farming, forestry and fishing and horticulture and fruit growing. In addition to a long-established agricultural presence, CYBG Group's existing capabilities and other areas of expertise enable it to identify and target underserved sub-sectors.

CYBG Group operates its business and private banking businesses on an integrated basis. As at 31 March 2015, CYBG Group's private banking customer base was comprised of business owners (with a stake of 25 per cent. or more in a business) or senior management (together 52 per cent. of the total), professionals with incomes of between £75,000 and £200,000 per annum (26 per cent.) and retirees with assets in excess of £100,000 (22 per cent.). Private banking customers also have access to the full suite of CYBG Group's retail banking products and services, and tend to hold a higher number of CYBG Group products per customer. As at 30 September 2015, 47 per cent. of CYBG Group's customers with a private banking current account held three or more CYBG Group products and 35 per cent. held two products, whereas 17 per cent. of total current account customers held three or more other CYBG Group products and 32 per cent. held two products.

3.2 *Strong local community brands*

CYBG Group benefits from a strong reputation built on its established and trusted brands, Clydesdale Bank and Yorkshire Bank, which are well-regarded in its core regions with proven national reach. According to an internal brand tracker survey, the top three attributes associated with Clydesdale Bank and Yorkshire Bank by customers were stability (selected by 87 per cent. of those surveyed), trust (selected by 86 per cent. of those surveyed), and reputation (selected by 81 per cent. of those surveyed) (*source: Clydesdale internal brand tracker survey, August 2015*).

In May 2013, Clydesdale re-launched the Clydesdale Bank and Yorkshire Bank brands, internally and externally. Built on customer responses to what a great bank should be, this re-launch followed significant work to establish and promote the core values and principles that underpin CYBG Group's brand statement, "We Care About Here".

"We Care About Here" brand positioning is founded on five key principles:

- Get the basics right – first time, every time;
- Listen, understand, respond;

- Be accountable – to customers and each other;
- Treat customers' time as more important than your own; and
- Know your neighbourhood.

Designed to stretch across both the retail and SME franchises as well as beyond its core regions, the brand re-launch was supported with a high-profile marketing campaign including television, outdoor, press and branch advertising. Overall, CYBG Group increased marketing and advertising expenditure from £14 million in the year ended 30 September 2012 to £19 million in the year ended 30 September 2013, £22 million in the year ended 30 September 2014 and £33 million in the year ended 30 September 2015.

The Directors believe that the re-launch of the Clydesdale Bank and Yorkshire Bank brands and associated advertising and marketing campaigns have strengthened the brands and increased consumer awareness, providing a strong platform from which to launch new products both in its core regions and nationally. Since the brand re-launch, CYBG Group has seen branch interview satisfaction increase from 95.2 per cent. as at 30 September 2013 to 95.6 per cent. as at 30 September 2014 and 96.8 per cent. as at 31 August 2015, as well as an increase in the likelihood of customers recommending CYBG Group from 30.9 per cent. to 42.2 per cent. and 58.4 per cent. respectively, for the same period (*source: Gusto CEA reports*).

CYBG Group has revitalised and refreshed its brands to focus on delivering fair outcomes and quality service to customers. According to the March 2015 uSwitch annual customer survey results, Clydesdale Bank was ranked number one for best branch customer service (77 per cent.), number two in online service (78 per cent), number two for best customer service overall (66 per cent) and number two in overall customer satisfaction (72 per cent). The uSwitch annual survey also included Bank of Scotland, Barclays, Co-Op, First Direct, Halifax, HSBC, Lloyds, Nationwide, NatWest, RBS, Santander and TSB. For the year ended 30 September 2015, CYBG Group saw a 19 per cent. reduction in customer complaints (excluding PPI complaints), compared to the year ended 30 September 2014, with 78,020 customer complaints down from 96,335 customer complaints in the prior year.

For reportable banking complaints per 1,000 customers CYBG had 2.6 for the six months ended 30 September 2015, compared to a peer average of 2.7 for the six months ended 30 June 2015.

CYBG Group also has a deep rooted track record of supporting the communities in which it operates; see paragraph 12: "*Community Outreach and Charitable Giving*" below.

3.3 *Standalone, scalable and full-service operating platform*

CYBG Group employs a standalone core banking platform with a demonstrated track record of systems resilience. After the Demerger, a limited level of ongoing support will be required from NAB for certain enterprise dependencies pursuant to the TSAs until CYBG Group's planned separation is fully implemented. For more information on the TSA arrangements, see paragraph 9: "*Relationship with NAB*" below. All key decision-making is the responsibility of CYBG Group management.

CYBG Group's operating systems are resilient and provide a platform for customer and balance sheet growth. The Directors believe that CYBG Group's key IT systems and services can be scaled to process double their existing transaction volumes without incurring material additional costs. CYBG Group uses selected outsourcing arrangements with reliable and industry-leading third-party suppliers to maintain flexibility in its cost base and facilitate scalability. However, CYBG Group does not outsource any of its core banking or payment systems.

CYBG Group's established operating platform enables it to provide new products and services, along with increased business volumes, at what the Directors believe are relatively low marginal costs. CYBG Group is also able to launch new products and services quickly through its existing distribution network, leveraging opportunities within customer facing services and across the core banking platform.

The net incremental costs of operating as a standalone entity after the Demerger are estimated to be £15 million to £25 million per annum.

3.4 *Profitable with a resilient and strongly capitalised balance sheet*

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. CYBG Group has reshaped its loan book through the transfer in

2012 of a legacy CRE portfolio to NAB, which together with strong growth in mortgages, has increased the percentage of its overall loan book comprised of low risk retail secured lending. CYBG Group's asset quality has been restored with both a decreasing non-performing loans ratio (defined as the ratio of loans that are more than 90 days past due plus gross impaired assets as a percentage of total customer loans) and impairment charge to average customer loans ratio. Overall levels of capital have been strengthened, with a Common Equity Tier 1 ratio of 13.2 per cent. and Leverage Ratio of 7.1 per cent, both as at 30 September 2015. CYBG Group's Leverage Ratio is among the highest of larger UK banks. CYBG Group continues to maintain a diversified funding portfolio, seeking to optimise its deposit mix, with growth in current account and savings account balances driving a reduction in overall funding costs.

Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring. CYBG Group's return on tangible equity on the Management Basis has increased to 5.1 per cent. for the year ended 30 September 2015 from 0.5 per cent. in the year ended 30 September 2012.

3.4.1 *Robustly capitalised in Basel III environment*

The Directors believe that CYBG Group's high quality capital levels are robust, as CYBG Group continues to navigate the capital management measures stemming from the implementation of Basel III. The Directors believe that CYBG Group's capital base, together with organic capital generation, supports CYBG Group's medium term growth plans. As at 30 September 2015:

- CYBG Group's Common Equity Tier 1 ratio was 13.2 per cent.;
- CYBG Group's Additional Tier 1 ratio was 2.5 per cent.;
- CYBG Group's Tier 2 ratio was 3.2 per cent.; and
- CYBG Group's Leverage Ratio was 7.1 per cent.

CYBG Group's Common Equity Tier 1 ratio as at 30 September 2015 is comprised solely of common equity and retained earnings and other reserves and can fully absorb losses on a going concern basis. As at 30 September 2015, all of CYBG Group's Tier 1 and Tier 2 capital instruments were held by NAB.

The Directors believe that the capital position of CYBG Group is sufficient to meet known regulatory expectations over the medium term. The Directors are targeting to maintain CYBG Group's Common Equity Tier 1 ratio in the range of 12.0 per cent. to 13.0 per cent.

3.4.2 *Prudent risk appetite coupled with strong asset quality*

CYBG Group manages its loan portfolios using robust underwriting processes supported by staff with sector and product experience, as well as by implementing risk appetite limits. The Directors believe that CYBG Group has a high quality loan book due to its high credit quality and the portfolio's overall diversification, with the portfolio comprised of 75 per cent. retail and 25 per cent. business lending as at 30 September 2015. The performance of the loan book has also benefited from ongoing risk management actions and a favourable macroeconomic climate in the UK. This is evidenced by the ratio of gross impaired assets to customer loans, which decreased from 1.35 per cent. as at 30 September 2014 to 0.91 per cent. as at 30 September 2015. CYBG Group also engaged a third-party to conduct an asset quality review during 2015, the results of which reaffirmed the strength of the Credit Risk Management Framework and the adequacy of provisions for bad and doubtful debts.

The Directors believe that the high quality of CYBG Group's mortgage portfolio is demonstrated by the ratio of impaired mortgage loans to gross mortgage loans, which was 0.35 per cent. as at 30 September 2014, and which improved to 0.32 per cent. as at 30 September 2015.

The Directors believe that the customer loan portfolio of £28,783 million as at 30 September 2015 is diversified; as at 30 September 2015, mortgage lending comprised 71.2 per cent. of the total loan book, business lending comprised 24.5 per cent. and unsecured personal lending comprised 4.2 per cent.

CYBG Group's mortgage loan book is also geographically diversified between its core regions, the South of England and the rest of the UK market, with 48.0 per cent. of the total book in the South of England, 24.0 per cent. in Northern England, 17.0 per cent. in Scotland, 7.0 per cent. in the Midlands and 4.0 per cent. in other UK regions as at 30 September 2015.

Credit risk associated with the business lending portfolio also has improved following the transfer of the majority of the legacy CRE portfolio to NAB in 2012, management actions to reduce exposures to higher risk sectors (such as hospitality and construction), sustained low interest rates, improving macro-economic conditions and customer deleveraging. As a result of changes to CYBG Group's risk appetite, the level of "single name" exposure risk also has reduced. This improvement in business lending asset quality is evidenced by the impairment charge to business lending ratio, which decreased from 1.41 per cent. for the year ended 31 December 2012 to 0.62 per cent. for the year ended 30 September 2014 and 0.37 per cent. for the year ended 30 September 2015. The ratio of impaired business loans to gross business loans also has improved, from 3.90 per cent. as at 30 September 2014 to 2.79 per cent. as at 30 September 2015.

3.4.3 *Stable and low cost funding platform*

As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6 per cent. of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks). PCA balances represented 26.4 per cent. of total customer deposits and 39.7 per cent. of retail customer deposits as at 30 September 2015. As at 30 September 2015, 78 per cent. of customers with PCAs had a tenure with CYBG Group of ten years or more. The loyal retail banking customer base, alongside stable customer deposit balances, provides low cost funding to support CYBG Group's asset growth.

CYBG Group has managed its funding to reduce its reliance on short-term wholesale funding, which can be volatile as to interest rates and availability. CYBG Group has improved its funding position in recent years by replacing a significant volume of short-term wholesale funding with stable and low-cost retail funding as well as secured term wholesale funding. As at 30 September 2015, in addition to customer deposits, the split of wholesale funding sources comprised RMBS and covered bonds of £3.7 billion and amounts due to related entities of £1.0 billion. The LDR was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015. By significantly increasing its volumes of non-interest-bearing or low interest bearing current account deposits and lower cost variable rate savings account deposits, CYBG Group has improved its deposit mix and reduced its reliance on higher-cost term deposits. The overall impact has been to reduce the average cost of deposits from 1.34 per cent. for the year ended 30 September 2012 to 0.90 per cent. for the year ended 30 September 2014 and 0.78 per cent. for the year ended 30 September 2015.

CYBG Group has also actively diversified its funding mix and reduced the utilisation of funding from NAB through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding through these programmes in terms of the type of instrument and product, maturity, currency, counterparty, term structure and market. As at 30 September 2015, CYBG Group had £3,714 million (excluding accrued interest) of outstanding RMBS and covered bonds held by third parties with maturities ranging from August 2016 to June 2026. The Directors believe that CYBG Group's demonstrated track record of access to the secured funding markets through these programmes provides CYBG Group with an important source of stable term funding.

CYBG Group plans to continue to manage the overall composition of its funding in terms of the mix of retail and wholesale funding, the mix of on-demand and term deposits, and the overall stability of funding, in order to effectively manage risk and return. The Directors believe that CYBG Group's current funding mix, strong base of predominantly low-cost customer deposits, proven access to wholesale secured funding and limited utilisation of short-term funding, provides a stable source of funding for the growth of its business. The Directors are targeting to maintain the LDR at a level of up to 115 per cent. over the period up to financial year 2020.

3.5 ***Experienced leadership team***

CYBG Group's executive and senior management team is comprised of team members with a combination of experiences at executive level positions with established public and private institutions. David Duffy joined CYBG Group as Chief Executive Officer on 5 June 2015 from his position as chief executive of Allied Irish Banks, where he successfully steered the bank back to profitability following nationalisation and losses during the financial crisis.

The Executive Directors have an average of 25 years of industry experience while the Senior Managers have an average of approximately 8 years of experience with NAB and/or CYBG Group, resulting in deep institutional knowledge complemented by broad industry experience. The Directors believe CYBG Group's executive and senior management team has the skills, knowledge and expertise to lead CYBG Group in the future execution of its strategy.

CYBG Group also benefits from eight experienced independent Non-Executive Directors, all of whom also sit on board committees. These Non-Executive Directors contribute to the diverse capabilities of the Board with experience across multiple customer service oriented industries.

CYBG Group's employee base has a high level of experienced staff; as at 30 September 2015, 74 per cent. of retail staff members had been with CYBG Group for longer than five years. An engaged and motivated employee base further underpins successful execution of the strategy; see "*Strategy Execution Enablers*" in paragraph 4.3 and paragraph 7.1: "*Employees*" below.

As of 30 September 2015, 99 per cent. of CYBG Group's employees have completed the Chartered Banker Professional Standards Board Foundation module. CYBG Group launched a new comprehensive learning platform for all employees on 1 October 2015.

4. **Strategy**

Overview

The Directors' goal is for CYBG Group to be a customer-centric franchise that proactively responds to changes in its customers' needs, builds long-standing customer relationships and delivers enhanced shareholder returns.

The Directors have four clear strategic aims for CYBG Group:

- Leverage its capabilities in existing core regions
- Continue its successful national growth strategy focusing on selected products and sectors where it has a strong history and established capabilities
- Deliver a consistently superior experience to customers underpinned by its local community brands and a customer driven omni-channel strategy
- Deliver enhanced shareholder returns

CYBG Group's business plan is based on the goals, strategic aims and priorities of CYBG Group going forward, and has been prepared employing a number of assumptions that have been referenced to both internal and external data sources. These assumptions include assumptions with respect to the outlook for interest rates and the broader macro-economic environment (in each case as set forth below) and expectations as to the competitive environment (as disclosed in Part 1: "*Industry Overview*"), taking into account the current regulatory environment (as described in Part 10: "*Supervision and Regulation*").

With reference to both internal and external data sources, CYBG Group's business plan assumes (i) sustainable GDP growth in the UK, (ii) both inflation and the unemployment rate in the UK remaining low and (iii) measured increases in UK base rates from current levels, with such increases expected to start in 2016. With respect to the macroeconomic environment, the UK economy has in recent years experienced growth in real GDP, reductions in unemployment levels, increases in house prices and increases in consumer confidence, with SME lending showing signs of moving out of a deleveraging phase. In the context of ongoing uncertainties in Europe and Asia, the UK currently enjoys a positive outlook for continued growth in real GDP. The interest rate assumptions are a key sensitivity for the forecast net interest income in the business plan and, therefore, future profitability.

Based on this business plan, the Directors are targeting a double digit ROTE within the period up to financial year 2020 following a period of expected increased investment in 2015 and 2016. To support its strategic aims and priorities, CYBG Group has targeted total investment spend (comprised of both capital and operating expenditure) for financial years 2015 and 2016 of approximately £300 million, with 50 per cent. distributed across system resilience (e.g. technology investments to maintain reliable customer service within risk appetite) and mandatory and regulatory projects and the other 50 per cent. distributed across customer investment and separation initiatives. This is as compared to financial years 2013 and 2014 in which CYBG Group had a total investment spend of £219 million, with £90 million allocated to resilience projects, £66 million for customer investment and £63 million for mandatory and regulatory costs.

The Directors are also targeting the delivery of a positive jaws ratio (defined as the difference in the growth rates of income and costs, respectively) annually, other than in the year ending 30 September 2016, after allowing for the impact of increased investment on cost growth. Meeting the positive jaws ratio target over the five year period should drive the cost-to-income ratio to below 60 per cent.

The Directors believe there is a reasonable basis for the business plan and targets with their overall delivery, across its strategic priorities, being dynamic relative to changes in the macroeconomic and competitive environment. The plan and targets do, however, involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual future results and performance or achievements of CYBG Group to be materially different than those set forth herein. The business plan and targets are based on numerous assumptions regarding present and future business strategies, an assessment of present economic and operating conditions and the environment in which CYBG Group will operate in the future, which may prove to be incorrect. Important factors that could cause actual results and performance to differ materially from those set forth in the business plan and targets include, among others, the risk factors described in the "*Risk Factors*" section of this Prospectus, and other unknown risks and uncertainties.

The assumptions with respect to interest rates and key macroeconomic factors used in preparing CYBG Group's business plan are set out below:

	For the year ended 30 September					
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP Growth	2.30%	2.20%	2.30%	2.30%	2.30%	2.30%
Consumer Price Index	0.50%	1.40%	2.00%	2.10%	2.20%	2.20%
Unemployment Rate	5.60%	5.30%	5.20%	5.10%	4.90%	4.90%
Interest Rates:						
Bank of England Base Rate (Average)	0.50%	0.73%	1.10%	1.38%	1.50%	1.58%
3 Month Libor (Average)	—	0.97%	1.44%	1.73%	1.77%	1.84%
Forward 2 Year Swap Rate	—	1.34%	1.64%	1.75%	1.81%	1.90%
Forward 5 Year Swap Rate	—	1.57%	1.74%	1.83%	1.89%	1.97%

The macroeconomic assumptions set out above have been developed by internal economists using their own macro-economic modelling, with reference made to a consensus of external forecasts for the broader macro-economic assumptions. The interest rate assumptions set out above have been developed with reference to forward market rates.

CYBG Group continues to focus on the momentum and growth resulting from positive dynamics such as its loyal customer base, motivated, engaged staff and solid financial fundamentals. However, the Directors have also identified areas that require improvement and change to evolve away from the subsidiary mentality, simplify internal governance and processes, streamline operations and significantly enhance productivity. CYBG Group's near term priorities underpinning this strategy include identifying and enhancing or engaging internal talent, rigorous management of the operating costs of CYBG Group and its investment expenditure, delivery of its digital enablement initiatives and continued focus on enabling customer franchise growth.

4.1 ***Grow the customer franchises by leveraging capabilities in existing core regional markets and continue its successful national growth strategy***

The Directors aim to leverage CYBG Group's retail and SME banking capabilities and customer base to grow the customer franchise by investing in propositions in target segments and geographies. According to September 2015 branch catchment data, CYBG Group had a potential customer population of approximately 18 million within a ten minute drive of a Clydesdale Bank or Yorkshire Bank branch (*source*: Experian Branch Catchments).

In retail banking, CYBG Group seeks to acquire new customers, with an emphasis on younger, more affluent demographics with the potential for long-term sustainable relationships through its PCA propositions. By continuing to grow the PCA customer base, CYBG Group seeks to also grow customer deposits in order to maintain its overall LDR. During the year ended 30 September 2015, CYBG Group opened 88,511 new PCA accounts, compared to 77,493 new accounts during the year ended 30 September 2014.

CYBG Group also aims to continue to grow nationally in mortgages through the intermediary and proprietary channels as well as in the unsecured loan portfolio by deepening relationships with existing customers and establishing relationships with new customers, in each case consistent with a prudent risk appetite. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise. The Directors also intend to increase the proportion of gross new business lending to new-to-bank customers to a level above the current level of 33 per cent. of total gross new business lending for the year ended 30 September 2015.

The Directors are targeting, through the delivery of CYBG Group's strategic priorities described below, an increase in CYBG Group's total retail lending book of between 40 per cent. and 50 per cent. in aggregate within the period up to financial year 2020. This target is based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to customer demand and the competitive environment (as described in Part 1: "*Industry Overview*"), taking into account the current regulatory environment (as described in Part 10: "*Supervision and Regulation*")).

Within the SME business, CYBG Group seeks to drive lending growth by leveraging sector led propositions in selected products and sectors with established capabilities (while executing the run-off of low yielding assets) and acquiring new small business customers and deposits through a customer-driven omni-channel strategy.

4.1.1 *Retail banking – focus on growth in core competencies*

Continue to grow PCA customer base and deposit franchise

CYBG Group plans to continue to grow its PCA customer base in both its core regions and nationally, targeting an increase in market share of PCA flow while maintaining its overall LDR. As at 30 September 2015, CYBG Group had 1.8 million PCA customers.

CYBG Group has seen a significant increase in the average deposit balance per retail customer, from £2,700 for each of PCA and variable rate savings accounts as at 30 September 2012 to £3,500 and £3,600 for PCA balances and £4,200 and £4,700 for savings account balances per customer as at 30 September 2014 and 30 September 2015, respectively.

In order to support the development of sustainable, multi-product customer relationships, CYBG Group aims to deliver a customer experience that makes CYBG Group the first choice for a customer to operate their main bank account. As at 30 September 2015, 60 per cent. of Yorkshire Bank main current account customers and 64 per cent. of Clydesdale Bank main current account customers held a PCA only, 31 per cent. and 24 per cent. respectively held one additional product and 9 per cent. and 12 per cent. held two or more additional products. This compares to a market average of 45 per cent. with only a PCA with the customer's main current account provider, 33 per cent. with one additional product and 22 per cent. with two or more additional products as at 30 September 2015 (*source: GfK Financial Research Survey*). Due to the nature of the PCA product and the relationship developed with customers, the Directors believe that growth in this area would provide valuable opportunities to meet customers' needs for other banking products with a particular focus on unsecured lending and savings and mortgage products.

CYBG Group's customer segmentation is currently weighted toward older or less affluent customers (representing 77 per cent. of CYBG Group's total customers as at 30 September 2015) compared to 69 per cent. for the market as a whole (*source: Experian data*). CYBG Group has identified key customer demographics in which it is under-weight, targeting growth across younger and more affluent customers, which account for 23 per cent. of retail customers (compared to 31 per cent. for the market as a whole). Based on Experian data, these more attractive customer demographics present a significant revenue opportunity as they tend to have higher average product holdings, higher unsecured personal lending balances and higher digital channel usage.

CYBG Group has also introduced product offerings specifically targeted at increasing the number of PCA customers outside of its core regions, including the Current Account Direct product, which offers customers higher interest rates on balances up to £3,000 and received the 2014 Moneynet Personal Finance Award for best new current account. CYBG Group also launched full online PCA account opening capability on its website in September 2015. The Directors intend to further increase CYBG Group's retail customer base nationally through continued development of its digital distribution capability. Digital distribution will be supported by access to agent-assisted channels providing personal interaction as required by customers seeking support for advice or service requirements.

4.1.2 *Continue to grow mortgage book*

CYBG Group is targeting growth across the mortgage loan portfolio and an increase in national market share, including managed growth in buy-to-let mortgage lending. CYBG Group plans to deliver this growth with prudent risk controls in place, primarily via a quality intermediary platform with an established track record of growth, alongside a mix of proprietary channels.

CYBG Group has a strong track record of delivering growth in its mortgage book outside of its core regions, increasing diversification from 49 per cent. of gross mortgage balances located outside the core regions as at 30 September 2012 to 59 per cent. as at 30 September 2015. This more balanced geographical exposure was achieved primarily through growth of mortgages originated through the intermediary channel, which increased from 35 per cent. of CYBG Group's gross mortgage balances as at 30 September 2012 to 53.2 per cent. as at 30 September 2015. As part of its mortgage growth strategy, CYBG Group also aims to maintain a balanced portfolio mix by competitively pricing lower LTV owner-occupied products, while continuing to be competitive in higher LTV owner-occupied products.

The Directors believe that the intermediary mortgage market represents a source of continuing growth given that it represents over half of gross new mortgage lending across the UK marketplace (approximately 67.0 per cent. of regulated gross new mortgage lending excluding further advances was written by intermediaries for the six months ended 31 March 2015 (*source: CML data*)). In the year ended 30 September 2015, CYBG Group had a 2.4 per cent. national market share of gross new mortgage lending, and a 4.1 per cent. market share in the three months ended 30 June 2015 in its core regions (with regional market share based on availability of regional loan data for 73 per cent. of the UK market). CYBG Group intends to continue to operate a business development management model with the intermediaries with whom it works in order to drive higher quality and higher value mortgage origination. CYBG Group will also seek to deepen its existing relationships with intermediaries and selectively expand the invitation only panel of intermediaries with whom it works.

In addition to targeted growth in gross new mortgage lending, CYBG Group is running off its low yielding tracker rate mortgage book. In 2008, CYBG Group ceased sales of tracker rate mortgages and the balance of the portfolio has decreased since then. As at 30 September 2015, this tracker rate mortgage portfolio consisted of approximately £2,625 million of mortgages. The run-off of the book is dependent upon customer behaviour, and the book is not expected to fully amortise significantly ahead of its contractual maturity profile in the medium term.

The Directors are targeting to grow CYBG Group's market share of mortgage stock from 1.6 per cent. as at 30 September 2015, with a targeted increase in aggregate mortgage balances of 40 per cent. to 50 per cent. within the five year period following Admission. This target was developed with reference to CYBG Group's historic mortgage growth record (representing a CAGR of approximately 10 per cent. over the period from 30 September 2012 to 30 September 2015) but is otherwise based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to the competitive environment (as described in Part 1: "*Industry Overview*"), taking into account the current regulatory environment (as described in Part 10: "*Supervision and Regulation*").

4.1.3 *Grow the SME franchise*

CYBG Group aims to deepen its relationships with existing SME customers, grow its BCA customer base, and develop its business lending in selected products and sectors.

CYBG Group continues to target the acquisition of small business customers through digital and direct channels, including marketing campaigns specifically aimed at these customer segments, such as its business current account free day-to-day banking offer. Since December 2014, CYBG Group has seen strong new BCA growth principally for new small business customers, growing from 625 accounts opened in that month to 1,458 accounts opened in September 2015. CYBG Group aims to further develop small business relationships, where CYBG Group has historically been underweight relative to peers. CYBG Group's average revenues per small business customer are 64 per cent. below the peer average, its lending products per small business customer ratio is 62 per cent. below the peer average and its small business cross sale penetration ratio is currently 16 per cent. below the peer average (*source: Finalta Small Business Benchmarking Survey*, 2014). CYBG Group believes this presents an opportunity to leverage its existing relationships and product offerings to capitalise on the growth opportunities within the small business segment, providing the opportunity to begin a long term relationship with the business as it grows.

The origination of business lending to new SME businesses is a key area of focus, alongside digital and direct channels. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise, including agriculture, health, hospitality, transport and storage, manufacturing, finance and CRE. The Directors also intend to increase the proportion of gross new business lending to new-to-bank customers to a level above the current level of 33 per cent. of total gross new business lending (for the year ended 30 September 2015).

The Directors intend to attract new SME customers by deploying CYBG Group's relationship management proposition supported by specialist sector knowledge and expertise in a number of targeted growth sectors and segments that they believe are underserved by existing providers. CYBG Group seeks to leverage its industry knowledge including by providing development funding to target growth across attractive sectors, for example by using a cash-flow based lending approach which supports asset-light sectors. The penetration of under-served opportunities will be managed within CYBG Group's risk appetite.

As part of this, CYBG Group has executed a managed and controlled re-entry into the CRE market by launching a centralised and specialised CRE capability, led by experienced specialists with deep sector knowledge, to facilitate a strategic re-entry into this sector with targeted lending to good quality, higher margin CRE developments and investments.

Underpinning CYBG Group's approach is the focus on understanding the customer's business and associated financing needs, and ensuring that its banking products fulfil customer requirements. Through the provision of a full suite of banking products, CYBG Group seeks to meet the working capital and longer-term funding requirements of its customers, as well as their cash management and payment services needs.

CYBG Group increased new-to-bank gross SME lending facilities accepted and available to customers from £483 million in the year ended 30 September 2014 to £636 million in the year ended 30 September 2015. In the short term, however, the Directors expect CYBG Group's total SME lending balance to decline moderately as low yielding assets run-off. As at 30 September 2015, the SME lending book consisted of approximately £1.1 billion of low yielding business loans out of a total business lending portfolio of £7.1 billion. The low yielding portfolio run-off is aligned with facility contractual end dates and in accordance with conduct best practice guidelines. CYBG Group expects to have largely exited legacy low yielding loans by 2017, with the remainder fully run-off by 2019.

CYBG Group has actively managed attrition of its SME lending book to improve risk quality and improve overall yields. The following table sets out the composition of CYBG Group's business lending portfolio by core lending, legacy CRE lending and identified run-off.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	(£bn)			
Core lending	6.0	6.2	9.0	10.8
Legacy CRE portfolio[(1)]	—	—	—	5.7
2014 Identified run-off lending	1.1	1.8	—	—
Total lending balance	**7.1**	**8.0**	**9.0**	**16.5**

(1) The 2012 CRE portfolio consisted of approximately £5,225 million of CRE assets and associated loans plus impairment provisions on credit exposures of £463 million and derivative financial instruments of £4 million relating to the legacy CRE portfolio.

Taking into account the run-off in low yielding assets, the Directors are aiming to modestly grow CYBG Group's national market share of SME loan balances from its level of 3.6 per cent. as at 31 March 2015, targeting an aggregate increase in SME lending balances between 15 per cent. and 25 per cent. in the period up to financial year 2020. In the two years following the date of Admission, the Directors believe that CYBG Group's overall SME lending book is likely to be broadly flat as the run-off in low yielding assets exceeds net new SME lending. This target is based on the assumptions as to interest rates and the broader macro-economic environment specified above, and expectations as to the competitive environment (as described in Part 1: "*Industry Overview*"), taking into account the current regulatory environment (as described in Part 10: "*Supervision and Regulation*").

4.2 ***Strengthen, develop and enhance omni-channel distribution to deliver a consistently superior experience to customers***

CYBG Group plans to continue to develop its omni-channel distribution platform by investing further in scalable digital banking channels and continuing to optimise its branch network to offer customers an integrated experience across digital and physical channels. In doing so, CYBG Group seeks to improve its ability to acquire new customers in its core regions and elsewhere throughout the UK, as well as to service new and existing customers more efficiently and deliver a consistently superior experience to customers.

4.2.1 *Continue to strengthen digital platform to support consistent and seamless omni-channel experience*

CYBG Group continues to develop and invest in its digital platform, utilising long standing customer relationships to gain critical insights for the successful deployment of its digital propositions via customer research and ongoing customer focus group engagement.

In October 2014, CYBG Group embarked on a three year programme to further digitise the customer experience for retail and SME banking and to provide improved solutions for customers to manage their finances. CYBG Group expects the initiatives to not only result in fast and easy access to telephone and remote screen sharing support alongside more integrated mobile, online and branch services, but to also allow services to be tailored to individual customers.

As part of this programme, CYBG Group plans to launch "B", an innovative and intuitive customer-centric digital proposition. B is currently live, with staff and non staff users (approximately 500 as at 31 December 2015). CYBG Group plans to publicly commence launch in early 2016 via a fully integrated advertising campaign that will leverage the benefits of digital and social media channels.

CYBG Group developed B following engagement with more than 10,000 customers, 250 members of staff and over 50 research sessions. B will introduce functionality designed to put customers in control of their finances and spending habits. This functionality includes providing narratives to engage customers with their finances, analysis of customers' spending behaviour and both automatic and/or personalised categorisation of customer spending. CYBG Group has designed B based on how customers have said they want to engage with their bank in order to deliver a more personalised and relevant service. CYBG Group has developed B to operate on a best-in-class digital platform for use on mobile devices and tablets, which will be supported by a dedicated telephony and video conferencing team, together with the existing branch network, with selective branches being further digitised to provide support. B is built on a modern architecture, which is designed to be scaled in order to accommodate projected demand requirements. In connection with the development of B, CYBG Group has implemented an analytics platform alongside the Digital Next Best Action ("**DNBA**") data and analytics capability discussed below, which will capture data for all retail customers. Cyber security for B employs a tiered security level model, including device bonding, security codes as well as "step up" passwords for high value payments. B will complement CYBG Group's existing suite of brand propositions with Clydesdale Bank and Yorkshire Bank and will carry the endorsement of the CYBG Group brands.

CYBG Group intends for B to be an important part of its omni-channel delivery and current account growth strategy, driving efficiency, process simplification and customer acquisitions. The strategic foundations developed by B have been designed to enable CYBG Group to simplify its consumer lending account opening processes, both for the public and secure websites, which should contribute to the growth of personal loan and credit card balances. B is expected to appeal to a younger, more affluent demographic who may have little or no association with the CYBG Group brands, as well as CYBG Group's traditional customer base. During 2015, CYBG Group conducted an online survey of existing Clydesdale Bank and Yorkshire Bank customers as well as non-customers outside of the core regions to market test B in advance of its launch. The focus group consisted of approximately 500 respondents over 23 years of age, with approximately 73 per cent. aged under 55. Of the existing Clydesdale Bank and Yorkshire Bank customers surveyed, there was a mix of main and secondary current account customers. During the 2015 trial period, 40 per cent. of the total focus group would feel more positively towards Clydesdale Bank and Yorkshire Bank if B was offered and, among likely users of B, this portion increased to 87 per cent. Additionally, this study found that B would boost perceptions of Clydesdale Bank and Yorkshire Bank in areas of innovation and modernity, which have not traditionally been areas of strength.

CYBG Group recognises the importance of continued investment in its IT platform alongside delivery of its digital-led customer propositions. CYBG Group has investments planned over the next three years to ensure that its IT platform remains compliant and maintains its systems currency within its risk appetite. CYBG Group also seeks to refresh its online SME platform, with initiatives such as the "Connected to You" proposition, which is expected to be launched during financial year 2016-2017 to focus on meeting the needs of micro business customers and Business Direct customers.

4.2.2 *Branch network optimisation*

The Directors believe that face-to-face service delivered through local branches remains an important consideration for some customers whilst the branch footprint needs to evolve to reflect how and where customers want to conduct their banking business. CYBG Group commenced a programme in 2015 to reshape and optimise its physical network. This investment programme over five years includes:

- Creating larger concept stores in key city locations, which as at November 2015, comprised London, Glasgow, Aberdeen, Sheffield and Leeds (which opened in November 2015), that bring together Retail and SME banking expertise, reduce customer service wait times, integrate with online and direct channels and provide greater front-office support for more complex transactions; another concept store to be located in Edinburgh, is planned to be opened during financial year 2017;
- Integrating business and private banking centres with retail branches to provide additional opportunities for customers to access a full range of services in a single location; as at 30 September 2015 there were 28 co-located centres, having executed five co-locations, with an additional three co-locations planned during financial years 2016 and 2017; and
- Ongoing activity to ensure branch locations match customer demand, which may result in selected branch closures and possible relocations.

4.2.3 *Develop enhanced customer data management and analytics*

Enhanced customer data management and analytics are key to the delivery of a consistently superior experience to CYBG Group's customers. Being able to provide customers with a seamless omni-channel experience requires an aggregated and up-to-date view on the customer accounts, their activity across those accounts and a strong understanding of their lifecycle of customer activity. Through this data and supported by analytics capabilities, CYBG Group seeks to provide insights to customers and enable them to manage their finances more effectively, and by developing predictive capabilities, anticipate potential future financial needs.

In May 2015, CYBG Group launched DNBA in retail internet banking, a customer data and analytics capability intended to support the delivery of an enhanced customer experience. DNBA enables full personalisation and optimisation of messages delivered to its retail banking customers and allows CYBG Group to manage customer messaging within a framework which tracks customer digital engagement across channels, recognising the interaction of multiple messages across channels. This functionality enables CYBG Group to deliver a highly relevant, personalised and event-led experience to each customer and increases opportunities to cross sell other products that are relevant to a particular customer based on that customer's transactions within the digital platform. CYBG Group's DNBA solution leverages CYBG Group's existing channels and reacts to channel demand in real time. CYBG Group has launched its DNBA solution for retail internet banking with plans to continue to incorporate it across customer interactions via its new digital platform, branches, telephone, customer statements, email, SMS and direct mail. Using the DNBA platform, CYBG Group will increase its annual message opportunities to customers from 20 million using traditional marketing platforms to approximately 500 million per annum over the next five years assuming all distribution channels become integrated into DNBA. CYBG Group estimates that the marginal costs of messages using the DNBA platform will be approximately £0.01 per message (based on estimated total cost of ownership of the DNBA system over five years and estimated message volumes), compared to £0.50 for a traditional direct marketing pack, which should enable CYBG Group to achieve deeper customer relationships at lower marginal costs. As at 30 September 2015, DNBA had delivered more than 40 million targeted messages, of which approximately six thousand of customers receiving messages visited a product related page per week.

4.3 ***Reduce costs through a broad-based simplification and productivity agenda as well as rigorously targeted investment spend***

CYBG Group intends to make ongoing targeted improvements in its operating model to realise efficiencies, streamline its operations and simplify key service and fulfilment processes. These improvements are designed to enhance customers' experiences, reduce costs and support CYBG Group's ability to achieve significant operating leverage in tandem with the growth of the business. CYBG Group's targeted investment in its growth plan and system resilience will bring closer alignment of CYBG Group's investment spend to the overall strategic agenda.

CYBG Group's rigorous approach to cost control will target specific areas in the near term for reduction, including platform costs, headcount reductions and restructuring across the business. This focus, together with a revised governance and control framework for costs which includes the creation of a senior employee role focused solely on cost management in order to identify opportunities for cost reduction across the business, is expected, in combination with targeted investment spend and growth in the bank's customer franchise, to contribute to a decrease in the cost to income ratio from 75 per cent. in the year ended 30 September 2015 to below 60 per cent. within the period up to financial year 2020.

CYBG Group is currently undertaking a number of simplification initiatives that are intended to result in sustained improvement in CYBG Group's cost position, including:

- Migrating towards a more integrated and digitised distribution model with an efficient and aligned approach to servicing both retail and SME banking customers. CYBG Group plans to develop this model over time by restructuring its distribution network and optimising its footprint to align with customer needs based on feedback from various pilot programmes. Operating model and efficiency initiatives are underway, including the continued optimisation of the branch network;
- Continuing to review and assess non-customer facing activities as a proportion of the total cost base, with further cost reductions under consideration; and
- Automating certain credit decisions, business capabilities and end-to-end processes to improve customer experience and efficiencies, including:
    - for mortgages: introduction of new processes and systems to improve communications as well as the customer experience such as "approval in principle", reducing interview time from 90 minutes to 60 minutes and reducing the average time from application to approval by 50 per cent.,
    - for PCAs: online account opening capabilities (which improves from a prior service time of 40 to 60 minutes in branch, with accounts opened the next day, or 20 to 40 minutes to open an account by telephone, with accounts opened 7 to 10 days later, to approximately 15 minutes to open an account online that is usable immediately),
    - for BCAs: account opening capabilities (which improved from accounts opening 14 days later to accounts opening 4 days later), and

- reduce system touch points by 60 per cent. and internal effort per loan by 25 per cent.

CYBG Group is implementing these measures in a manner consistent with its risk management practices; see Part 6 "*Risk Management*" for additional information on CYBG Group's risk controls.

Strategy Execution Enablers

The Directors believe that meeting CYBG Group's strategic aims requires a customer-centric culture with strong leadership that is appropriate for a standalone environment. CYBG Group continues to prioritise recruiting and deepening talent at all levels of the organisation to address key capability gaps and upgrade the governance framework, including (i) recent reorganising and reducing the size of the leadership team and (ii) senior management appointments across the business, support and control functions. This effort to better align the organisation with CYBG Group's strategic aims and growth initiatives will help establish clear areas of accountability and streamlined operations. In addition to the commercial agenda, the Directors believe it is imperative that the Bank maintains a key focus on ensuring that the internal governance model is appropriate for a bank of its size and is supported by best in class risk, audit, legal and compliance functions as part of a robust and effective governance model.

Implementation of CYBG Group's strategy will also require an engaged and empowered employee base. CYBG Group plans to implement a customer-centric reward programme aligned to the bank's larger strategic goals. CYBG Group has also taken steps to progress a new employment engagement strategy that uses multimedia, video streams and management Q&A which has been well received.

5. Banking Activities

5.1 *Retail Banking*

CYBG Group has a comprehensive regional and national retail banking product proposition, serving 2.6 million customers. CYBG Group's personal deposit portfolio was £17.5 billion as at 30 September 2015, comprising PCAs (39.7 per cent. of the total portfolio), variable rate savings accounts (34.4 per cent. of the total portfolio) and fixed rate term deposits (25.9 per cent. of the total portfolio). As at 30 September 2015, 83 per cent. of variable rate savings account and fixed rate term deposit customers were located in CYBG Group's core regions, compared to 86 percent of PCA customers.

CYBG Group's retail loan portfolio was £21.7 billion as at 30 September 2015, comprising of mortgages (94.4 per cent. of the total portfolio), personal loans (3.5 per cent. of the total portfolio) and credit cards and overdrafts (2.1 per cent. of the total portfolio).

5.1.1 *Current Accounts*

CYBG Group had approximately 1,819,000 PCA customers as at 30 September 2015. 34 per cent. of CYBG Group's PCA customers also held savings accounts with CYBG Group, 14 per cent. held CYBG Group credit cards and 7 per cent. held mortgages with CYBG Group.

CYBG Group has developed a loyal PCA customer base that represents a stable source of funding. As at 30 September 2015, 78 per cent. of CYBG Group's PCA customers had a tenure with CYBG Group of more than ten years. As at 30 September 2015, 86 per cent. of CYBG Group's PCA customers were located in its core regions, with 35 per cent. in Scotland, 25 per cent. in North East England, 27 per cent. in North West England, 8 per cent. in the Midlands and less than 6 per cent. in the rest of the UK. In the 10 months ended 31 July 2015, CYBG Group had a 3.5 per cent. share of gross new PCA account deposits in its core regions.

CYBG Group has identified key customer demographics in which it is under-weight, targeting growth across younger and more affluent customers. The following table demonstrates the opportunity presented by these more attractive demographics by comparing the "growing rewards" segment (comprised of high income families with children) and the "traditional thrift" segment (comprised of ageing individuals with low income and state reliance).

	As at 30 September 2014	
	Traditional thrift	**Growing rewards**
Cross sell (average product holding)	1.6	1.9
Approximate average lending balance[1]	£1,600	£12,100
Internet banking usage	15%	36%

Source: Experian data 2014

(1) Unsecured personal lending balance

The table below sets out information on CYBG Group's retail customer attrition and acquisition for the year ended 30 September 2015 using internal customer profile information. During that period, CYBG Group achieved a net acquisition of approximately 16,000 retail customers in targeted demographics (with a net loss of approximately 4,000 retail customers in non-targeted demographics).

	Year ended 30 September 2015	
	Acquired	**Attrition**
Bright Futures*(1)	8,606	4,521
Single Endeavours(2)	9,343	6,847
Young Essentials(3)	3,716	2,583
Growing Rewards*(4)	10,804	6,954
Family Interest*(5)	4,981	3,543
Accumulated Wealth*(6)	10,110	7,085
Consolidating Assets*(7)	12,414	9,270
Balancing Budgets(8)	14,995	12,505
Stretched Finances(9)	9,568	7,427
Established Reserves(10)	13,935	12,762
Seasoned Economy(11)	4,473	5,556
Platinum Pensions(12)	7,363	7,746
Sunset Security(13)	8,262	12,765
Traditional Thrift(14)	6,487	12,340

* Target segment

(1) Young professionals in their 20's & early 30's, building their careers whose incomes have good potential to rise.

(2) Young singles and sharers who are working to establish themselves while enjoying low commitments.

(3) Young people in their 20's with low income renting affordable accommodation.

(4) High income families with children who are making excellent financial progress.

(5) Growing families with mid-range incomes and high expenses.

(6) Affluent families with the highest incomes, expensive homes and many assets.

(7) Families in their middle years who have made a good foundation to their financial position.

(8) Families in their middle years who have average incomes and need to balance expenses against resources.

(9) Middles aged families who are striving to manage their day to day finances on very limited incomes.

(10) Pre-retirement households with good savings whose financial commitments are reducing.

(11) Pre-retirement households who are experienced in making their money go further.

(12) Elderly people with good pensions who are enjoying a comfortable retirement.

(13) Retired people with the security of home ownership and a modest pension income.

(14) Ageing people with low incomes and a reliance on state provision.

In November 2014, CYBG Group launched its first current account switch campaign as part of CASS, pursuant to which it invited customers to transfer their PCA to CYBG Group in exchange for incentive payments, subject to certain conditions. For the year ended 30 September 2015, CYBG Group successfully processed 99.6 per cent. of the switches within the terms of the service level agreement. CYBG Group targeted this campaign at both existing and new customers. BACS reports that for the period between 1 January 2015 and 31 March 2015, CYBG Group gained 15,632 current accounts (which, according to BACS, includes data on personal customers, small businesses and small charities that have switched using CASS) compared to 8,465 current account customers switching to another bank, a net acquisition of 7,167 current account customers. CYBG Group also launched a second current account switch campaign in April 2015.

In connection with the current account switch campaigns, CYBG Group has improved its underlying PCA customer quality and regional diversity. CYBG Group has increased the percentage of its PCA customers using Clydesdale Bank or Yorkshire Bank as the primary PCA from 39 per cent. as at 30 September 2013 to 42 per cent. as at 31 July 2015. CYBG Group has also increased the number of customers using Clydesdale or Yorkshire Bank as the primary PCA from 758,660 customers as at 30 September 2014 to 767,733 customers as at 30 September 2015. During CYBG Group's current account switch campaigns, over the period from 1 November 2014 to 30 September 2015, 19 per cent. of CYBG Group's newly acquired PCA customers were from outside of its core regions as compared to only 2 per cent. during the three months prior to the campaign. CYBG Group's customer retention also improved during its second campaign with only one per cent. of new customers leaving after being attracted by the initial campaign incentive during the period from 1 April 2015 to 31 July 2015. This is as compared to the first campaign during the period from 1 November 2014 to 31 March 2015 when 12 per cent. of new customers subsequently switched to another bank.

The PCA campaign was undertaken in two distinct phases (1 November 2014 through 31 March 2015 and 1 April 2015 through 30 September 2015). The second phase of the campaign differed from the first phase as CYBG Group adopted a more targeted approach, through the incentive qualifying criteria, to drive improved customer quality. The criteria included a requirement to have direct debits on the new PCA. The improved customer quality is best evidenced through the change in the number of primary PCA customers, up from 40 per cent. in the first phase to 52 per cent. in the subsequent phase.

This focus on quality impacted performance in the six months ended 30 September 2015 with a net loss of 7,152 PCA accounts compared to a net gain of 3,589 PCA accounts for the six months ended 31 March 2015. Whilst volumes fell in the second phase, relative to the prior year, net movements had improved as CYBG Group had experienced a net loss of 13,484 PCA accounts in the six months ended 30 September 2014 and a net loss of 9,520 PCA accounts in the six months ended 31 March 2014. The following table compares the improvement characteristics for PCA accounts.

	Campaign 1 1 November – 31 March 2015	**Campaign 2 1 April 2015 – 30 September 2015**
	(%)	
Customer Age:		
≤ 35 years old	36	41
> 35 years old	64	59
Primary account users[(1)]:		
Primary	40	52
Secondary	60	48
Number of direct debits:		
≤ 5 direct debits	72	58
> 5 direct debits	28	42
Customer annual income[(2)]:		
≤ £20,000	60	55
> £20,000	40	45

(1) Primary (i.e. main bank) customer must be party to at least one account of a selected product type which meets the following criteria: (i) credit turnover averaging at least £1,000 in the last 3 consecutive months, (ii) three or more standing orders or direct debits (or a combination of the three) in place or (iii) three or more customer initiated transactions (ATM, point of sale, branch counter services).

(2) Income is derived from a combination of application, credit turnover and bureau data.

CYBG Group issues debit cards to support its current account portfolio, in partnership with MasterCard. CYBG Group is currently one of the UK's largest MasterCard debit card issuers. CYBG Group currently has both Maestro and Debit MasterCard cards in circulation, although the intention is to migrate Maestro branded cards to Debit MasterCard, which offers enhanced global acceptance, on a phased basis over time.

As part of its overall digital strategy, CYBG Group has also introduced contactless payment technology and improved mobile and online account capabilities. The Directors believe that these developments, along with other current account promotions and initiatives, should enable CYBG Group to remain competitive.

5.1.2 *Savings accounts*

As at 30 June 2015, CYBG Group had approximately 1,378,000 personal variable rate savings account customers and personal fixed rate term deposit customers and £6,013 million of personal variable rate savings account deposits. The Directors believe savings accounts are an important component of funding due to their stability. As at 30 September 2015, 78 per cent. of personal savings account customers held an account with CYBG Group for more than ten years. In the 10 months ended 31 July 2015, CYBG Group had a 4.6 per cent. share of gross new savings account deposits in its core regions.

CYBG Group offers a variety of savings accounts that pay a variable rate of interest. CYBG Group also offers cash ISAs with competitive rates that offer depositors tax free returns, which include instant access cash accounts from which customers may withdraw deposits at any time, as well as a 40 day notice account. These preferential ISAs, which had a balance of £2,431 million as at 30 September 2015, have contributed to savings account growth as well as an approximate 0.20 per cent. national market share increase and had an average yield of 1.66 per cent. for the year ended 30 September 2015. As at 30 September 2014, these preferential ISAs had a balance of £1,083 million with an average yield of 1.41 per cent. for the year ended 30 September 2014. Some of CYBG Group's variable rate savings accounts include an introductory incentive rate on top of the standard variable deposit rate to a specified end date.

5.1.3 *Term deposits*

As at 30 September 2015, CYBG Group had £4,519 million of personal fixed rate term deposits, with an average deposit balance per customer of £24,400. Taken together with CYBG Group's savings account customers, 83 per cent. of variable rate savings and fixed rate term deposit customers were located in the core regions as at 30 September 2015.

Term deposits (sometimes referred to as "fixed rate savings accounts" or "time deposits") offer a fixed interest rate for a fixed term. CYBG Group also offers fixed rate cash ISAs.

In 2011, following a credit rating downgrade, CYBG Group experienced a reduction in short-term wholesale funding. CYBG Group was able to successfully attract additional fixed-rate term deposits at market rates, the majority of which matured in 12 or 24 months, in order to address this reduction in wholesale funding. Subsequently, CYBG Group undertook actions to grow PCA and retail savings balances as well as managing down the volume of fixed-rate term deposits from £6,603 million as at 30 September 2012 to £4,519 million as at 30 September 2015. These actions have enhanced the structure and stability of CYBG Group's retail deposit base as well as reducing the overall funding costs.

5.1.4 *Mortgage lending*

As at 30 June 2015, CYBG Group had 233,000 retail mortgage customers, with 59 per cent. of mortgage balances outside of the core regions and an average mortgage balance per customer in the portfolio of £194,000. CYBG Group successfully increased its mortgage portfolio from £13,981 million as at 1 October 2011 to £18,444 million as at 30 September 2014 and £20,504 million as at 30 September 2015 (of which 68.7 per cent. were owner occupied mortgages and 31.3 per cent. were buy-to-let mortgages). CYBG Group has recorded growth in mortgage balances in excess of the UK market as a whole, with a CAGR of 10.1 per cent. in mortgage balances in the period from 30 September 2012 to 30 September 2015 versus 1.4 per cent. for the UK market as a whole over the same period (*source: Bank of England*). Mortgage lending in the UK remains a strategic priority for CYBG Group, with a significant portion of CYBG Group's net interest income derived from interest received on its mortgage portfolio.

CYBG Group requires all mortgage loans to be fully secured by way of a first ranking charge on the residential property to which the mortgage loan relates on terms that allow for the repossession and sale of the property if the borrower fails to comply with the terms of the loan. CYBG Group provides mortgage loans on a capital repayment basis, where the loan is required to be repaid during its life, and on an interest-only basis, where the customer pays interest during the term of the mortgage loan with the principal balance required to be repaid in full at maturity. For the year ended 30 September 2015, CYBG Group had 39,000 mortgage completions and recorded a CAGR in mortgage completions of 20 per cent. from the year ended 30 September 2012 to the year ended 30 September 2015.

The primary source of gross new mortgage loan origination for CYBG Group for the three years ended 30 September 2015 has been the intermediary channel. The following table sets out CYBG Group's gross new mortgage lending by distribution channel for the periods indicated.

	Year ended 30 September			
	2015	2014	2013	2012
	(£m)			
Intermediary	3,658	3,633	2,169	2,061
Proprietary[1]	1,277	1,293	933	1,070
Gross new mortgage lending	**4,935**	**4,925**	**3,102**	**3,131**

(1) Proprietary refers to direct lending (not through an intermediary). This includes lending through branch and private bank channels.

CYBG Group intends to continue to develop its intermediary broker network in order to further diversify its mortgage portfolio geographically, and make use of its digital platform and branch network in its core regions.

CYBG Group has established a proprietary and direct mortgage origination capability pursuant to which 171 dedicated mortgage specialists interact with new and existing customers using CYBG Group's branch network, the internet or telephone and handle queries from customers through the proprietary channels. CYBG Group's direct and branch network advisers are managed as one team, with the number of advisers determined by capacity and customer need; staffing needs are reviewed in line with anticipated customer demand on an ongoing basis. CYBG Group utilises Yorkshire Bank branded mortgage products throughout Yorkshire and Northern England and Clydesdale Bank branded mortgage products in the remainder of the English and all of the Scottish markets as well as for all of CYBG Group's intermediary mortgage lending.

(a) *Composition by type – owner-occupied and buy-to-let*

CYBG Group offers both owner-occupied mortgage loans (pursuant to which the borrower is the owner and occupier of the mortgaged property) and buy-to-let ("**BTL**") loans (pursuant to which the borrower intends to let the mortgaged property). BTL gross new mortgage lending has increased from 17 per cent. of total gross new mortgage lending for the year ended 30 September 2012 to 27 per cent., 38 per cent. and 43 per cent. for the years ended 30 September 2013, 2014 and 2015, respectively (percentages are calculated excluding the unknown amounts). As at 30 September 2015, the average buy-to-let loan balance per account was £169,633.

CYBG Group's owner-occupied mortgage portfolio consists primarily of mortgage loans to individuals secured by a first charge on residential properties located in the UK. CYBG Group does not provide second charge mortgages.

CYBG Group originates BTL mortgages in the UK via mainstream and specialist intermediaries. The BTL segment comprises secured lending on property for investment purposes, including residential investment property, with a focus on lending to medium net worth clients looking to diversify their investments, with a main applicant average income for BTL loans of £104,000 as at 30 September 2015, compared to £102,000 for the six months ended 31 March 2015. CYBG Group estimates that as at 30 September 2015, 74 per cent. of its BTL borrowers could afford their mortgages with no recourse to rental income in a stressed scenario. For the year ended 30 September 2015, 67 per cent. of the total BTL portfolio had a rental cover of 150 per cent. or higher.

As at 30 September 2015, 31.3 per cent. of CYBG Group's outstanding mortgage balances, or £6,418 million, were BTL loans. Of this amount, £5,663 million were interest-only loans. The following table sets out a breakdown of CYBG Group's BTL new mortgage approvals for the year ended 30 September 2015 by borrower type:

	Value (£m)	% of BTL new mortgage approvals by value
Investor	1,482	59
Let-to-buy	776	31
Occasional	273	11
Professional (3+ properties)	2	0

As part of its ongoing risk management, CYBG Group limits the number to three properties on which it will lend to BTL landlords, with the additional exposure to landlords holding three or more properties in the table above reflecting historical risk policies. In addition, CYBG Group has a conservative approach to BTL loan origination with interest-only BTL mortgages currently limited to a maximum loan-to-value ratio of 75 per cent. and capital repayment BTL mortgages currently limited to a maximum loan-to-value ratio of 80 per cent.

CYBG Group's BTL mortgage products take the same form as its owner-occupied mortgage lending, such as fixed and variable rate mortgages.

(b) *Composition by repayment type*

Customers with repayment mortgages are required to make payments of both interest and capital, usually on a monthly basis. Customers with interest-only mortgages are required to make payments of interest, usually on a monthly basis, with the capital required to be repaid at maturity. Interest-only mortgages are not available through retail channels, but are available to private and business-to-business customers through the intermediary channel. Interest-only loans are generally interest-only for the full mortgage term. For fixed-rate loans, the pricing will revert to CYBG Group's standard variable rate after the fixed-rate period expires. Private and business-to-business interest-only loans are restricted to borrowers with income over a certain threshold (£75,000 sole/£100,000 joint).

The following table sets out the composition of mortgages by repayment type and product type as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	(£m)			
Owner occupied:				
Capital repayment	9,919	9,330	8,069	7,264
Interest-only	4,167	4,201	4,575	5,001
	14,086	13,531	12,644	12,265
Buy-to-let:				
Capital repayment	755	706	572	506
Interest-only	5,663	4,207	2,932	2,598
	6,418	4,913	3,504	3,104
Total	**20,504**	**18,444**	**16,148**	**15,369**

(c) *Composition by interest rate basis*

CYBG Group offers fixed rate and variable rate mortgage loans. Fixed rate mortgage loans give the customer certainty in relation to the amount of interest payable on a monthly basis for the duration of the fixed-rate term. Variable rate mortgage loans provide for a variable payment with interest rates moving with changes in interest rates generally, often linked to changes in the Bank of England base rate.

Fixed rate mortgage loans have a set interest rate for an initial pre-determined period, after which the interest rate reverts to a variable interest rate until the mortgage term expires. CYBG Group offers fixed-rate mortgage loans, with terms of two or five years, with three-year fixed-rate loans also available to first-time buyers.

Variable rate mortgage loans are available with a concessionary discount period with or without offset functionality. The offset allows customers to link a current or savings account to the mortgage and instead of earning interest on the account, the balance on the account is set against the mortgage principal in order to reduce the interest payable. Included within the variable rate mortgage portfolio are CYBG SVR mortgages. CYBG Group's standard variable rate was 4.95 per cent. for owner-occupied and 5.35 per cent. for BTL as at 30 September 2015. The SVR mortgage book balance as at 30 September 2015 was £3,081 million with an average yield of 4.96 per cent. Fixed rate mortgage products revert to the SVR rate at the end of the fixed interest rate period. The reversion of mortgages onto an SVR rate as well as repayments and refinancings result in regular changes to the overall SVR mortgage book balance. Movements in the overall SVR mortgage book balance in the year ended 30 September 2015 were not material in the context of the overall mortgage book.

Tracker rate mortgages bear a variable rate of interest directly linked to the Bank of England base rate, i.e. base rate plus a fixed percentage margin. Whilst the rate is variable, the terms under which the rate can vary are restricted. Rates are linked to the Bank of England base rate for the life of the mortgage. CYBG Group has a historic portfolio of tracker rate mortgages which were withdrawn from general sale in 2008; as at 30 September 2015 new tracker mortgages were offered on a limited basis to CYBG Group employees.

The following table sets forth the composition of CYBG Group's mortgage portfolio by product type as at the dates indicated.

	As at 30 September	
	2015	**2014**
	(£m)	
Mortgages:		
Fixed rate	12,710	9,454
Variable rate	5,169	6,124
Tracker	2,625	2,866
Total mortgages	**20,504**	**18,444**

(d) *Regional distribution of mortgages*

CYBG Group has a diversified portfolio of secured mortgage exposures across the United Kingdom. With the exception of Scotland and North England, the regional distribution of CYBG Group's mortgages is broadly in line with the distribution of mortgage volumes across the UK banking industry generally. The relative concentration of mortgages in Scotland and North England reflects the bank's historic footprint.

The following table sets out information on the regional distribution of CYBG Group's mortgages as at 30 September 2015 by value and as a percentage of CYBG Group's total portfolio. As the table indicates, CYBG Group has a diversified mortgage book, with significant exposures in South England as well as its core regions of Scotland and North England, with 59.0 per cent. outside of the core regions.

	As at 30 September 2015	
	Value (£m)	**% of CYBG Group's mortgages**
South England	9,842	48.0
North England	4,921	24.0
Scotland	3,486	17.0
Midlands (England)	1,435	7.0
Other UK	820	4.0
Total	**20,504**	**100.0**

(e) *Loan-to-value ratios*

The average loan-to-value ratio of CYBG Group's mortgage lending, coupled with the relationship of the debt to customers' income, are key metrics in determining the credit quality of these loans. The following table below sets out the indexed loan-to-value analysis of CYBG Group's mortgages as at 30 September 2015.

	As at 30 September 2015		
	Owner occupied	**Buy-to-let**	**Total**
Less than 50%	39	24	34
50% to 75%	43	69	51
76% to 80%	7	2	5
81% to 85%	5	1	4
86% to 90%	2	1	2
91% to 95%	1	0	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown(1)	3	3	3
Total	**100**	**100**	**100**
Average loan-to-value:			
Stock of mortgages (Indexed)(2)	54.5%	57.2%	55.3%
Stock of mortgages (at origination)(3)	64.7%	68.4%	65.5%
New lending(4)	70.4%	67.7%	69.7%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed loan to value is weighted by balance.

(3) Average loan to value at origination is based on LTV calculation without any weighting.

(4) Average new lending loan to value is based on LTV calculation without any weighting and is based on one month's approvals (March) only.

5.1.5 *Underwriting*

In line with peers, CYBG Group primarily uses automated credit decision tools to support its mortgage underwriting services, supplemented by a robust manual underwriting process. All mortgages are processed through the automated decision tool, which considers information from the applicant, a credit rating agency and, for existing customers, information related to banking patterns. The automated system then decides whether an application is accepted, declined or referred for a manual credit assessment. A refer decision will result in a referral to manual underwriters while a decline decision can be referred to manual underwriters at the discretion of the mortgage advisor. In addition to the use of automated decision tools, all loans over £500,000 require a manual assessment. All manual credit decisions are made using objective criteria by accredited underwriters (of which there were 45 with an average of 22 years of banking experience as at 30 September 2015).

CYBG Group's underwriters use various types of information in reaching their decision including: credit rating agency data, external and internal credit history, financial position information, and information on stability and type of employment. The review also involves an assessment of a customer's ability to afford and repay any borrowing, including under stressed conditions, prior to any lending decision. The underwriter has the authority to approve applications in line with CYBG Group's credit policies and procedures. By combining automated credit decision strategies with manual underwriting and judgment, CYBG Group is able to offer common sense and bespoke solutions for specific customer segments. This is particularly useful for clients who may have a compensation structure that makes it difficult to calculate their future income levels. The Directors believe CYBG Group's smaller scale enables early engagement and flexible bespoke underwriting processes to assist growth.

CYBG Group requires all mortgage loans to be fully secured by way of a first ranking charge on the mortgaged property, to ensure that its claim to the property, in the event of default, is senior to those of other potential creditors. As a result, the Directors believe that CYBG Group's mortgage lending carries lower risk than certain other types of lending.

CYBG Group does not offer mortgages to borrowers who self-certify their income or who have adverse credit histories ("**sub-prime**") and conducts affordability stress testing on its mortgages using a stressed interest rate of 7.45 per cent. as at 30 September 2015.

CYBG Group originates new mortgage loans in accordance with its defined risk appetite, which is agreed by the Board and the management team. CYBG Group has established a number of risk appetite parameters designed to ensure the portfolio contains a level of risk that is viewed as acceptable and that mortgages are affordable for customers. These risk appetite parameters include:

- limited appetite for non-standard products, as CYBG Group is primarily focused on mainstream retail owner-occupied and buy-to-let mortgages;
- geographic and product concentration caps;
- LTV and loan-to-income thresholds (including restrictions imposed by the FPC regulations); and
- Residential interest-only lending portfolio is limited to a specified percentage of the portfolio and to borrowers with a minimum property value of £400,000 and a maximum age at maturity of 70 years; in 2013, residential interest-only lending was restricted to sale through two channels only (intermediary brokers and private banking).

5.1.6 *Financial Care Team*

The Financial Care team supports and manages retail banking customers in financial difficulty; their primary goal is to identify affordable and sustainable solutions for customers. The Financial Care Team, supported by the Customer Banking Operations team, is part of CYBG Group's customer-centric approach which utilises a variety of support strategies, including consideration of temporary concessions or permanent contract changes. Referral into the Financial Care Team is an automated process and they utilise a variety of methods to communicate with customers. In certain cases solutions will include asset sales or litigation.

The following table sets out a breakdown of retail delinquent debt under the management of the Financial Care Team as at 30 September 2015.

As at 30 September 2015	Debt by type
	%
Secured <90 DPD	36
Unsecured <90 DPD	6
Secured 90+ DPD	34
Unsecured 90+ DPD	24
Total	**100**

As at 30 September 2015, total delinquent unsecured and secured retail debt under the management of the Financial Care Team was £416 million and comprised 62,273 accounts.

5.1.7 *Unsecured Personal Lending*

CYBG Group's unsecured personal lending offerings consist of personal loans, credit cards, and overdraft facilities associated with current accounts, which are originated by CYBG Group through its branch, and other direct channels (e.g. telephony). CYBG Group also remains focused on digital distribution channels (online and mobile) including aggregators, while maintaining the broader aims of cross-channel pricing.

CYBG Group's unsecured lending portfolio had an average personal loan balance per customer of £6,800 as at 30 September 2015. The following table sets out a breakdown of CYBG Group's unsecured personal lending balances as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	(£m)			
Unsecured personal lending:				
Personal loans	763	824	756	730
Credit cards	376	364	396	436
Overdrafts	79	94	122	144
Total unsecured personal lending	**1,218**	**1,282**	**1,274**	**1,310**

All applications for unsecured personal lending are initially processed through CYBG Group's automated decision tool. The underwriting process across each of the key products (personal loans, credit cards and overdrafts) and channels (online, branch and telephone) is the same. The majority of personal loans and credit card approvals (over 80 per cent.) are automated whereas a greater proportion of overdraft approvals, historically, have been manual. All applications above £25,000 require manual assessment.

(a) *Personal loans*

CYBG Group provides retail and private banking customers with unsecured personal loans through its branch network as well as its digital and telephone channels. CYBG Group's unsecured personal loan portfolio of £763 million as at 30 September 2015 accounted for 3.5 per cent. of total retail lending as at that date. As at 30 June 2015, the loans were held by 130,000 customers. In 2012, CYBG Group introduced an online product known as "direct personal loan" in response to the market shift toward online distribution. This product contributed to an increase in personal loan volumes although online price competition led to a fall in gross yields. The direct personal loan product successfully addressed a previous decline in personal lending and enabled CYBG Group to access a wider market than available via its then-existing distribution channels. Following a revision in CYBG Group's pricing strategy, there has been an increase in the share of personal loan customers located in CYBG Group's core regions as the distribution model for this product saw a shift away from aggregator sites, with 81 per cent. of customers located in CYBG Group's core regions as at 30 September 2015. The following table sets out the value and percentage of CYBG Group's gross new unsecured personal loans sourced via the direct channel for the periods indicated.

	Year ended 30 September			
	2015	2014	2013	2012
	(£m, except %)			
Direct (digital & telephony)	191	327	309	140
Percentage of total gross new personal loans	61%	82%	78%	51%

The risk profile of the personal loan book improved from 30 September 2012 to 30 September 2015, with balances more than 90 days past due of 0.7 per cent. of the personal loan book as at 30 September 2015.

As at 30 September 2015, CYBG Group had a 5.6 per cent. share of the unsecured personal loan market in its core regions and, as at 31 March 2015, had a 2.4 per cent. share of the unsecured personal loan market nationally.

(b) *Credit cards*

CYBG Group's credit and charge card portfolio had a total outstanding balance of £376 million as at 30 September 2015, with an average balance per customer of £1,300. As at 30 September 2015, CYBG Group had 335,000 credit card customers having opened 39,282 new credit card accounts in the twelve months prior.

CYBG Group offers three credit card products: Private MasterCard, Business MasterCard and Gold MasterCard. All three cards are available under both the Clydesdale Bank and Yorkshire Bank brand names. There are also three legacy cards: Yorkshire Bank Visa Classic, Clydesdale Bank Standard MasterCard, and Clydesdale

Bank Preferential Rate MasterCard, along with four legacy charge cards: Clydesdale Bank Visa Charge, Clydesdale Bank Gold Charge, Clydesdale Bank Principle Charge and Yorkshire Bank Principle Charge.

During the first quarter of 2015, CYBG Group launched a Gold MasterCard initiative, designed to provide a market-leading proposition. This initiative included making the credit card available via the online channel as well as in branches and by telephone, and offering the credit card with 26 months' interest free on purchases and 12 months' interest free on balance transfers.

As at 30 September 2015, CYBG Group had a 0.8 per cent. share of the credit card market nationally, with 83 per cent. of its customers located in its core regions. CYBG Group regards its credit card portfolio as an area of potential growth with a total of 39,282 new card issuances in the year ended 30 September 2015, compared with 19,123 new cards issued in the year ended 30 September 2014, 14,917 new cards issued in the year ended 30 September 2013 and 18,485 new cards issued in the year ended 30 September 2012.

As at 30 September 2015, approximately 0.8 per cent. of CYBG Group's total credit card balances were more than 90 days past due.

(c) *Overdrafts*

CYBG Group provides overdraft lending across a variety of PCA products, subject to the account holder's status. Overdrafts comprise planned borrowing and unplanned borrowing. Unplanned borrowing is subject to a fee for each working day a PCA is in an unplanned borrowing position above a buffer amount.

Personal overdrafts are deemed delinquent as soon as the relevant credit limit is exceeded or when the overdraft has expired. As at 30 September 2015, gross personal overdraft balances more than 90 days past due were £1 million or 1.3 per cent. of the personal overdraft loan book.

5.1.8 *Payment and Merchant Services*

CYBG Group's payment services to retail customers include prepaid cards (including Clydesdale Bank/Yorkshire Bank cash passport currency cards, Clydesdale Bank/Yorkshire Bank prepaid cards, credit union prepaid cards, and Post Office travel money plus prepaid cards). Clydesdale Bank/Yorkshire Bank merchant services is enabled by Worldpay UK Limited and enables businesses to accept credit and debit card payments. These merchant services are available to business and private banking customers.

5.1.9 *Insurance*

CYBG Group offers home and contents insurance, life and critical illness insurance, life insurance for individuals over 50 years of age, commercial insurance, car insurance, and travel insurance, among other insurance products. These products are underwritten by third parties and distributed by CYBG Group to customers. CYBG Group receives commissions and other payments in connection with these arrangements.

5.2 *SME Banking*

CYBG Group offers its SME customers a full range of business banking products and services to meet their banking needs across its Business Direct, small business, commercial and specialist and acquisition finance segments.

The following table sets out a breakdown of CYBG Group's SME banking revenue by product and customer segment for the year ended 30 September 2015.

Segment	Overdraft & term lending	Invoice finance	Asset finance	Treasury[1] & trade[2]	Payments[3]	Deposits/ cash management[4]	% of total revenue per segment
Business Direct	26%	— %	1%	1%	3%	69%	10%
Small business	36%	2%	2%	2%	5%	53%	6%
Commercial	44%	8%	5%	8%	5%	30%	53%
Specialist and acquisition finance	72%	7%	2%	5%	1%	13%	31%
% of total revenue per product	50%	6%	4%	6%	4%	30%	100%

1 Treasury solutions is defined as currency, interest rate and commodity risk management products. Prior to 1 March 2015 business and private banking allocation of treasury income was 30 per cent.; however, from 1 March 2015, 100 per cent. of such income is now allocated to business and private banking.

2 International trade is defined as banking services to import/export companies.

3 Payment is defined as merchant services and business online.

4 Includes personal deposits and fee income.

5.2.1 *Relationship Management Based Operating Model*

CYBG Group's business and private banking services are built upon a relationship management model, providing customers with access to a relationship manager, with wide banking knowledge and access to a network of sector specialists, committed to helping the customer meet their banking needs and financial requirements.

Business customers benefit from additional product and sector expertise, with dedicated sector teams available to deliver solutions to customers. CYBG Group's agricultural sector team is the most established, with over 100 years of experience in managing the banking needs of customers in that industry, a result of CYBG Group's historically strong regional and sector presence.

As at 30 September 2015, 47 per cent. of CYBG Group's relationship managers had greater than ten years of experience, in addition to successful completion of internal and external training to deepen their business knowledge and complement their broad skill set and qualifications. CYBG Group offers a combination of telephone based relationship management through Business Direct (79 relationship managers) and face-to-face relationship management through small business, commercial and specialist & acquisition finance specialists with the offerings tailored to meet the complexity of customers' banking needs. As at 30 September 2015, CYBG Group had 37 local small business relationship managers and 209 commercial relationship managers (including specialist and acquisition finance). CYBG Group's relationship managers are well placed to serve a growing and increasingly diversified business customer base while seeking to enhance cross sell opportunities.

CYBG Group leverages a strong service proposition with a pro-active approach to customer acquisition across technological capability, the branch network and its business team to deliver a simple, transparent and competitive product aligned to customer banking needs.

5.2.2 *Customers*

CYBG Group offers a full range of SME banking products and services to approximately 179,000 SME businesses as at 30 September 2015, comprised of the following:

- micro businesses (which CYBG Group defines as businesses with no lending outstanding and turnover of less than £120,000, constituting approximately 55 per cent. of business customers),
- Business Direct (which CYBG Group defines as businesses with outstanding lending of less than £0.1 million and turnover of less than £750,000, constituting 29 per cent. of business customers and 10 per cent. of CYBG Group's total revenue for the business and private banking segment),
- small businesses (which CYBG Group defines as businesses with lending of £0.1 million to £0.25 million and greater than £750,000 but less than £2.0 million in turnover, constituting 4 per cent. of business customers and 6 per cent. of CYBG Group's total revenue for the segment) and
- commercial businesses (which CYBG Group defines as businesses with lending of higher than £0.25 million and greater than £2.0 million in turnover, constituting 13 per cent. of business customers (including 1,430 specialist and acquisition finance customers and 3,404 national business solutions customers) and 84 per cent. of CYBG Group's total revenue for the segment).

Across all business segments, CYBG Group provides working capital solutions to business customers through asset finance, invoice finance, international trade, merchant acquiring and treasury solutions. CYBG Group benefits from a strong commercial client base across both its loan and deposit portfolios, with specialist and acquisition finance and commercial customers accounting for 94 per cent. of CYBG Group's total business loan balances (or £6.7 billion) and 63 per cent. of total CYBG Group's business deposit balances (or £5.5 billion) respectively, as at 30 September 2015. Small business (4 per cent.) and Business Direct (2 per cent.) accounted for the balance of CYBG Group's business loan balances as at 30 September 2015. CYBG Group's remaining business deposit balances were spread across small business customers (21 per cent. of the total), Business Direct customers (11 per cent. of the total) and micro customers (7 per cent. of the total) as at 30 September 2015.

5.2.3 *Private banking*

CYBG Group offers private banking customers a wide variety of products such as current accounts (with or without travel insurance cover), savings products (including cash ISAs and term deposits), discounted mortgages, branded credit cards, asset finance as well as a wealth management referral to a Origen Financial Services advisor and access to foreign exchange solutions.

As at 30 September 2015, private banking portfolio lending volumes totalled £3.4 billion, representing 12 per cent. of CYBG Group's customer loans, and was comprised of variable rate mortgages (62 per cent. of the total portfolio), fixed rate mortgages (34 per cent. of the total portfolio), personal loans (3 per cent. of the total portfolio) and overdrafts (1 per cent. of the total portfolio). As at 30 September 2015, CYBG Group had total private banking deposit balances of £2.9 billion, representing 11 per cent. of CYBG Group's total customer deposits, which was comprised of savings deposits (42 per cent. of the total), term deposits (28 per cent. of the total) and current accounts (30 per cent. of the total).

5.2.4 *Business Lending*

CYBG Group offers SME customers a full range of business lending products and services designed to meet their needs.

CYBG Group is focussed on returns through balance sheet optimisation including the managed run-off of low-yielding assets. Taking into account the transfer of £5.7 billion of predominantly CRE assets and associated loans net of provisions to NAB in 2012, CYBG Group has reduced its business lending book from £16.5 billion as at 30 September 2012 (inclusive of the legacy CRE portfolio) to £7.1 billion as at 30 September 2015. In addition to the transfer of the legacy CRE portfolio, drivers of the reduction include a change in risk appetite away from sectors displaying weak performance, refocusing the business on SME customers and the additional run-off of £1.1 billion of low-yielding business loans by 2019.

CYBG Group's market share of the UK SME lending market as defined by the BBA was 3.6 per cent. at 31 March 2015 (*source: BBA*). For the year ended 30 September 2015, CYBG Group made approximately 44,000 credit decisions for business customers.

In making business lending decisions, CYBG Group focuses on, among other things, the sustainability of customer earnings and cash flow as the primary credit consideration with asset security as a secondary credit consideration.

The following table sets out the composition of CYBG Group's business lending portfolio by product type as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
		(£m)		
Term lending[(1)]	5,118	5,842	6,582	7,942
Overdrafts	1,165	1,322	1,485	1,743
Working capital solutions[(2)]	778	806	935	1,211
Total business lending[(3)]	**7,061**	**7,970**	**9,002**	**10,896**

(1) Term lending includes a portfolio of individually hedged fair value term loans classified as other financial assets at fair value for reporting purposes. Other financial assets at fair value principally comprise a portfolio of fixed rate business loans and advances, in addition to products with other forms of interest rate protection such as caps and collars.

(2) Working capital solutions includes asset finance, invoice finance and international trade services.
(3) Business lending does not include lending through the private bank.

- Term lending: CYBG Group offers a wide variety of term loans, both secured and unsecured, and offers customers a range of repayment and interest rate options. The majority of CYBG Group's business term lending is LIBOR based. These loans are used to fund the longer-term needs of customers, and include acquisition finance loans and loans to finance the purchase of specific assets. The business lending portfolio excludes the legacy CRE portfolio that was transferred to NAB, and which was included in assets held for sale at 30 September 2012.
- Overdrafts: business overdrafts are the primary type of revolving variable rate credit facility offered by CYBG Group to business customers supporting working capital requirements. These are priced at a margin over the relevant central bank base rate (depending on the currency) and an arrangement fee is also payable.

- Working capital solutions includes:
  - Invoice finance (approximately 600 customers and £319 million of lending balances as at 30 September 2015): CYBG Group advances funds against the customer's trade receivables on a confidential basis (without notification to the debtor). The customer continues to manage the credit control of their sales ledger, collecting sums due from debtors and repaying the advance provided by the bank.
  - Asset finance (approximately 8,140 agreements and £425 million in gross balances as at 30 September 2015, with 10 per cent. growth in gross new lending in the year ended 30 September 2015 as compared to the year ended 30 September 2014): these products provide a method of financing capital equipment purchases by customers. CYBG Group offers a full suite of products that enable customers to spread the cost of the expenditure, thereby protecting cash flow and helping distribute the cost of the asset over its operating life.
  - International trade services (£30 million): these products facilitate transactions between a buyer and seller located in different countries. CYBG Group offers import loans, export loans, documentary collections and currency guarantees, together with letters of credit for securing trade.

Working capital solutions also includes £4 million in acceptances.

For the year ended 30 September 2015, gross customer margin for front book lending for asset finance was 3.63 per cent., for overdrafts and term lending was 3.58 per cent., and for invoice finance was 3.05 per cent.

CYBG Group maintains a diversified business lending portfolio with limited single exposure concentrations, where the top 20 customers accounted for only 9 per cent. of total business lending in the year ended 30 September 2015. The following table sets out the breakdown of CYBG Group's business lending portfolio by sector as at the dates indicated.

	As at 30 September	
	2015	**2014**
	(£m)	
Agriculture (soft commodities)	1,694	1,766
Retail and wholesale trade	810	981
Business services	735	831
Government, health and education	772	848
Manufacturing	679	788
Hospitality	601	745
Commercial real estate	504	562
Entertainment and personal services	317	400
Transport and storage	279	320
Construction	194	193
Other	476	536
Total	**7,061**	**7,970**

CYBG Group splits the overall sectors shown above into 22 focused sub-sectors. To counter systemic risks, CYBG Group targets a maximum exposure across any sub-sector of £800 million, with the exception of agriculture, which has a limit of £2.0 billion, as a result of CYBG Group's long-standing expertise in this sector as well as agriculture's low loss performance history and strong and stable asset values. All sub sectors are operating within approved risk setting limits as at 30 September 2015.

CYBG Group plans to focus its new business lending on sectors that it has identified as having greater potential for attractive yields, with lending reflecting a focus on SME businesses and continued commitment to agriculture. CYBG Group also has shifted to diversify its lending growth into sectors previously closed to new lending such as hospitality and CRE while also providing lending support into growth sectors such as renewables and near shore marine. CYBG Group also benefits from its strong existing customer relationships, with approximately 67 per cent. of originations from existing customers in the year ended 30 September 2015. The following table sets forth a breakdown of CYBG Group's gross new facilities accepted and available to customers for the year ended 30 September 2015.

	For the year ended 30 September 2015		
	New customers	**Existing customers**	**All customers**
		(£m)	
Agriculture (soft commodities)	70	234	304
Retail and wholesale trade	55	241	296
Business services	80	230	310
Government, health and education	153	79	232
Manufacturing	73	175	248
Hospitality	37	22	59
Commercial real estate	53	19	72
Utilities, post, telephony	41	36	77
Transport and storage	11	71	82
Finance	41	42	83
Other[1]	22	150	172
Total	**636**	**1,299**	**1,935**

(1) Other includes resources, entertainment and personal services and construction.

CYBG Group employs a customer internal credit rating system ("**eCRS**") to enable it to assess the probability of default within the following twelve month period, with ratings in categories ranging from "investment grade" to "default". Following separation, CYBG Group will continue to utilise NAB's credit risk engine, which supports monthly calculation of RWAs on both a standardised and foundation IRB basis, under the TSA on a transitional basis for 12-36 months. For a summary of the terms of the TSA, see Part 14: "*Additional Information – Material Contracts – Transitional Services Agreements*".

CYBG Group's business lending portfolio has demonstrated improving portfolio eCRS ratings across the majority of sectors and a focused approach towards sectors with stable characteristics as CYBG Group has managed the portfolio to a lower risk profile. The five sectors with the largest loan exposures accounted for 66.4 per cent. of CYBG Group's total business lending as at 30 September 2015, with six business customer loans having an individual exposure in excess of £50 million. The hospitality and agriculture sectors comprise a significant portion of the watch portfolio (as discussed below under "*Strategic Business Services*" and in Part 5: "*Operating and Financial Review – Credit Risk – Business lending portfolio composition – Business lending – credit risk*"), however the agricultural sector's portion is lower than its overall share of the portfolio due to the strong credit profile of the sector.

CYBG Group's business lending is concentrated in its core regions. CYBG Group had a 15.4 per cent. market share of all SME lending in Scotland, a 6.9 per cent. share of all SME lending in Yorkshire, and a 5.8 per cent. share and 4.4 per cent. share of all SME lending in North East England and North West England, respectively, compared with a 3.6 per cent. market share nationally, in each case as at 31 March 2015 (*source: BBA*). This regional strength is rooted in the historical focus of CYBG Group and the continued presence of business and private banking centres and branches in those areas.

5.2.5 *Business Current Accounts & Deposits*

As at 30 September 2015, CYBG Group had an estimated 1.4 per cent. share of BCA balances in the UK, with a total BCA balance of £6.0 billion (*source: Bank of England*). CYBG Group has increased the number of BCA accounts opened from 2,161 new accounts during the first quarter of financial year 2015 to 2,529, 3,647 and 4,311 in the second, third and fourth quarters of financial year 2015, respectively.

The following table sets out the balances of CYBG Group's business deposits as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Business deposits:				
Current accounts				
Interest-bearing demand deposits	4,131	3,756	3,677	3,691
Non-interest-bearing demand deposits	1,907	1,761	1,589	1,555
Total current accounts	6,038	5,517	5,266	5,246
Variable rate savings accounts	1,777	1,731	1,870	1,853
Fixed rate term deposits(1)	964	1,262	1,690	3,319
Total business deposits	**8,779**	**8,510**	**8,826**	**10,418**

(1) Business fixed rate term deposits include other financial liabilities at fair value.

5.2.6 *Underwriting*

CYBG Group's cash flow based business lending underwriting process is largely manual due to the diverse nature of business customers. The majority of the decisions are made by the independent credit underwriter following a request from the front line relationship manager. CYBG Group separates its relationship managers and credit assessment processes to ensure decisions are reached independently. For certain assets, the underwriting is undertaken by a limited number of credit managers with particular sector experience, such as agriculture and specialist and acquisition finance. CYBG Group's business underwriting expertise is delivered by a team of 41 dedicated staff with an average of 22 years of banking experience. CYBG Group continues to focus on enhancing underwriting staff expertise, with training and accreditation requirements established and tracked as a requirement of retaining delegated authority. The team also conducts "lessons learned" briefings for front line relationship managers and credit underwriters. The majority of business credit applications are submitted through CYBG Group's business lending platform and are subject to a joint sign-off process between the front line relationship manager and the credit underwriter reviewing the application. Higher loan amounts may require two underwriters or may be submitted to the credit committee for approval. CYBG Group assigns an eCRS rating to all business customers with aggregate borrowings greater than £25,000.

5.2.7 *Strategic Business Services*

Strategic Business Services ("**SBS**") is a team within CYBG Group's risk management function, tasked with supporting business customers facing financial difficulty. SBS exercises pro-active management in order to pre-empt issues and maximise recoveries as appropriate, including the use of forbearance when appropriate to a customer's situation. Specialist teams within SBS manage turnaround, insolvency and complex cases (including multi-bank positions). CYBG Group is focused on introducing loans to SBS as early as possible to ensure appropriate action is taken. As at 30 September 2015, CYBG Group's SBS division was comprised of 49 staff members with the SBS management team having an average of 16 years' industry experience and a mix of banking and professional restructuring skills.

CYBG Group's business lending portfolio is split between non-categorised and categorised assets. Non-categorised assets are managed by the business relationship managers and are subject to annual review by credit officers. Categorised assets have been identified as representing heightened risk and are managed by SBS. All forborne business lending (except on commercial terms) is managed by SBS and classified as categorised. Assets are referred to SBS based on several factors, including a categorised asset checklist, daily or weekly excess lists, eCRS movement, deteriorating trends and identification of any covenant breaches. All business loans that are 90 days past due must be referred to SBS; as at 30 September 2015, only 4 per cent. of the categorised assets were 90 or more days past due. When a business customer in financial difficulty is referred to SBS, SBS takes control of the credit strategies however the relationship manager remains involved to ensure continuity of relationship and to retain close involvement in any commercial negotiations.

Categorised assets are divided into three categories:

- "watch" reflects assets that have adverse factors which if not reversed, will result in the customer being unable to meet its obligations;
- "in default" refers to loans with an eCRS rating of 98 (in default but no loss expected); and
- "impaired assets" refers to loans with an eCRS rating of 99 where a loss event has been recognised by the raising of a specific provision and/or interest no longer being taken to profit or "restructured loans" which refers to loans where the original terms have been amended following a loss event.

CYBG Group has taken a prudent approach to SBS classifications. As at 30 September 2015, £1.0 billion or 14.3 per cent. of total business lending was classified as categorised (3.8 per cent. as defaulted and 10.5 per cent. as watch), compared with 15.6 per cent. as at 30 September 2012 (4.8 per cent. defaulted and 10.8 per cent. watch, excluding the legacy CRE portfolio), or 24 per cent. of the total business lending including the legacy CRE portfolio, 17.8 per cent. as at 30 September 2013 (5.6 per cent. defaulted and 12.2 per cent. watch) and 18.3 per cent. as at 30 September 2014 (5.4 per cent. defaulted and 12.8 per cent. watch).

As at 30 September 2015, the amount of each type of categorised loan had declined from prior periods. The following chart sets out the composition of CYBG Group's categorised business loan portfolio by type as at the dates indicated.

	As at 30 September				
	2015	**2014**	**2013**	**2012 (excluding CRE)**	**2012 (including CRE)**
			(£bn)		
Watch loans	0.7	1.0	1.1	1.2	2.3
Defaulted (including 90+ DPD)	0.1	0.2	0.2	0.1	0.4
Impaired	0.2	0.3	0.3	0.4	1.2
Total categorised business lending	**1.0**	**1.5**	**1.6**	**1.7**	**3.9**

As at 30 September 2015, non-categorised loans comprised £6.1 billion of the total business lending portfolio. There are no agriculture loans in the 20 largest business loans (by drawn balance) and two CRE loans, reflecting a diverse range of industries across the portfolio. Of the 20 largest business loans, only two were categorised as at 30 September 2015, and none were classified as impaired.

The Directors believe that early engagement of SBS allows appropriate strategies to be developed to improve outcomes for both the customer and CYBG Group.

The following table sets out an exposure based view of the evolution of CYBG Group's SBS book during the period indicated.

	As at and for the year ended 30 September		
	2015	2014	2013
		£m	
Opening balance	**1,811**	**1,911**	**4,479**
CRE transfer	—	—	(2,438)
New	436	754	1,182
Repatriated[1]	(399)	(293)	(341)
Exited[2]	(110)	(173)	(169)
Reduction[3]	(434)	(308)	(680)
Write-off[4]	(73)	(80)	(122)
Closing balance	**1,231**	**1,811**	**1,911**

(1) Defined as files that have returned to "non-categorised".

(2) Defined as Debt repaid and account closed (due to asset sale, customer repayment or refinance to other lender).

(3) Defined as instances where the limits to customers are reduced either through the repayment of facilities or the removal of unnecessary banking limited (i.e. reduction in overdraft or reduction in payment facilities).

(4) Defined as represents the shortfall between the face value of the asset and the obtained cash flows or realised value of securities after meeting securities realisation costs.

5.2.8 *Other Products & Services*

CYBG Group also offers its business customers a range of other business banking products such as treasury services (e.g., interest rate risk management, commodities risk management, foreign exchange risk management, and money market deposits) and funding of professional indemnity insurance.

CYBG Group has an established track record of effectively working with key institutions to deliver services to customers. British Business Bank has announced a partnership with CYBG Group pursuant to which CYBG Group has agreed to provide certain levels of SME lending, backed by a guarantee from the British Business Bank. The pilot programme was launched in March 2015, and the Directors believe it is the first such programme for SMEs in the UK market.

6. Distribution Channels

CYBG Group provides its products and services through an omni-channel distribution platform. CYBG Group's comprehensive distribution capability offers a product set aligned to its customers, as set forth in the retail product proposition breakdown by channel below for the year ended 30 September 2015.

Customer Channel	PCAs	Savings[3]	Credit Cards	Mortgages	Personal Loans
	% of total new accounts opened			*% of total gross new lending*	
Branch network	81%	82%	37%	14%	39%
Intermediary	n.a.	n.a.	n.a.	74%	n.a.
Digital[2]	4%[1]	11%[1]	53%	3%[1]	41%
Telephony	15%	7%	10%	10%	19%
Total accounts opened (in thousands)/ total gross new lending (in £ billion)	85k	97k	34k	£4.9	£ 0.3

(1) Online form and post

(2) Includes aggregators

(3) Includes term deposits, cash ISAs and instant access accounts

6.1 *Branch Network*

As at 30 September 2015, CYBG Group has 275 retail branches in the UK (89 per cent. of which were located in the core regions), with 2,834 FTEs, including over 1,000 tellers and approximately 125 mortgage specialists. CYBG Group conducted approximately 18 million teller transactions in its branches and approximately 21.9 million account maintenance requests in the year ended 30 September 2015.

CYBG Group's branch network is key to CYBG Group's ability to meet the needs of its customers in local communities and will continue to provide an important source of customer acquisition and deposit and asset growth. During the year ended 30 September 2015, CYBG Group opened 81 per cent. of its total PCA accounts, 37 per cent. of its total credit cards issued, 82 per cent. of its total savings accounts and generated 14 per cent. of its total gross new mortgage lending and 39 per cent. of its total new unsecured personal lending through its branch network.

CYBG Group has prioritised providing quality customer service throughout its branch network and has continued to improve the branch customer experience. As compared to 30 September 2013, 30 September 2014 and 31 August 2015, CYBG Group had improved its branch interview satisfaction from 95.2 per cent. to 95.6 and 96.8 per cent. respectively and the likelihood of its customers to recommend CYBG Group from 30.9 per cent. to 42.2 per cent. and 58.4 per cent., respectively (*source: Gusto CEA reports*).

In addition to its branches, CYBG Group has arrangements in place for current account holders to access their accounts through the Post Office network, which has the effect of extending CYBG Group's footprint to over 11,800 additional locations on a national basis. At Post Office locations, CYBG Group customers can conduct banking transactions (including cash withdrawal, balance enquiry and cash deposit transactions), providing additional opportunities for in-person banking services to its customers.

6.2 ***Business and Private Banking Centres and Customer Service Centres***

As at 30 September 2015, CYBG Group's physical network included 40 business and private banking centres, 28 of which are co-located with retail branches. CYBG Group's strategy of co-locating business and private banking centres with retail branches enables it to meet a wider range of customer product and service needs while achieving efficiencies across the network. CYBG Group also supports customer delivery via its four regional customer service centres.

6.3 ***Mortgage Intermediaries***

CYBG Group has an eleven year track record with intermediary mortgage brokers and mortgage networks, with 65 per cent. of its broker panel members having a relationship with CYBG Group for four years or longer. CYBG Group's "invitation only" broker panel had a membership of 331 directly authorised brokers and network brokers as at 30 September 2015, with the top 10 brokers writing 34 per cent. of CYBG Group's gross new mortgage lending through intermediaries.

A significant proportion of the mortgages sold in the UK retail mortgage market are sold through intermediaries. The use of the intermediary mortgage market allows CYBG Group to compete effectively outside of its core regions, reducing concentration risk within those regions without having to increase the size of its branch network or add a significant number of employees.

As at 30 September 2015, approximately 95 per cent. of CYBG Group's intermediary mortgages had a loan-to-value ratio of less than 80 per cent.

6.4 ***Digital (internet & mobile)***

CYBG Group offers online and mobile banking to its customers which are the two fastest growing distribution channels for CYBG Group as measured by log-ons and transactions. CYBG Group has seen a notable increase in mobile application and digital usage. For the year ended 30 September 2015, the number of mobile log-ons increased by 122 per cent. and the number of digital log-ons increased by 42 per cent. when compared to 30 September 2014. Following launch of the mobile application, from 1 October 2013 to 30 September 2014, CYBG Group achieved 29 million mobile log-ons.

Despite increasing competition, CYBG Group realised approximately 41.6 per cent. of its total new unsecured personal lending through online digital channels in the year ended 30 September 2015.

CYBG Group's current mobile offerings to retail customers provide functionality comparable to its peers in the UK market. Capabilities include the ability to (i) view balances and recent transactions, (ii) transfer money between accounts, (iii) receive text alerts, (iv) make and receive internal and external payments, (v) transfer money via PAYM and (vi) locate a branch. CYBG Group also rolled out full PAYM capabilities in April 2015, which integrated into the existing mobile application to send and receive secure payments using just a mobile telephone number. Together with other banks and building societies, CYBG Group has committed to a multi-million pound investment programme to deliver this service and raise awareness in the market.

CYBG Group's retail internet offering is a robust in-house solution offering servicing solutions that expand upon what is offered through the mobile application. Automated and simplified online solutions are being introduced in response to customer needs and are expected to be launched during the next two financial years ending 30 September 2016 and 2017, including increased online current account functionality which provides online origination capability across products.

As at and for the year ended 30 September 2015, CYBG Group had 13,428 business online active registrations, an increase from 11,314 as at and for the year ended 30 September 2014, 9,779 as at and for the year ended 30 September 2013 and 9,078 as at and for the year ended 30 September 2012.

As at 30 September 2015, 16 per cent. of CYBG Group's micro business customers, 31 per cent. of Business Direct customers and 33 per cent. of small business customers were registered for online banking. These percentages are calculated on an individual level as opposed to a connection level, which consolidates users common to the same account as one customer. For more information on CYBG Group's customer reporting, see "*Important Information – Customer Reporting*".

In addition to direct digital channels, CYBG Group has increased the use of aggregator channels with loans, mortgages, credit cards, PCAs and BCAs for both Clydesdale Bank and Yorkshire Bank brands marketed through 21 external websites as at 30 September 2015. CYBG Group has also increased social media usage into new assisted digital capabilities alongside the expected roll out of a video conference capability in branch and from home, increasing the use of co-browsing and screen-share technology.

6.5 *Voice*

CYBG Group provides retail telephony services via two principal contact centres in Clydebank and Kilmarnock in Scotland (the latter being outsourced to provide increased flexibility for call volumes) as well as two smaller centres in England to handle certain customer requirements. These centres support customers on both an inbound and outbound basis in a full range of account servicing and product sales activities, including non-voice activities such as web and social media. CYBG Group also provides SME customers with telephone support via the Business Direct channel, which services approximately 51,000 customers.

CYBG Group's Business Direct channel has delivered SME deposit growth. The following table sets out information on CYBG Group's Business Direct calls received and deposit balances for the periods indicated.

	As at and for the year ended 30 September			
	2015	**2014**	**2013**	**2012**
Business Direct calls per month	12,400[2]	10,720	9,475	8,114
Business Direct deposit balances (£m)[1]	997	945	844	497

(1) The significant step-up in 2012 versus 2013 was driven by restructuring of the business and a corresponding reclassification of deposits.

(2) Business Direct calls per month for financial year 2015 are up 2 per cent. versus the six months ended 31 March 2015.

CYBG Group's telephony channel functions 24 hours a day, 365 days a year and as at 30 September 2015, had 530 telephone banking FTEs (including 46 mortgage specialists). CYBG Group's telephone banking FTEs have an average of 7 years experience with CYBG Group. This onshore telephony capability is operated using CYBG Group-owned systems and infrastructure. The capability provided allows for intelligent call routing within sites and across sites, delivering the capability to work as one virtual contact centre. Within the existing telephony infrastructure, CYBG Group customers can use the automated "Interactive Voice Response" system to self serve for services ranging from balance updates to making bill payments.

The Directors believe that CYBG Group's full-service telephone banking capability operated by experienced UK staff (alongside its digital capability) brings with it opportunities to reduce the costs associated with sales and servicing its customers through branches and to free up capacity in those branches to help meet more complex customer needs.

Collectively, these contact centres received approximately 3.4 million calls for the year ended 30 September 2015. Each centre is subject to rigorous monitoring and quality assessment, which has contributed to 80 per cent. of calls answered by a live operator having a wait time of less than 20 seconds in the six months ended 30 April 2015, compared to a market average of 69 per cent. (with a market high of 86 per cent. and low of 51 per cent.) (*source: eBenchmarkers – Telephone Banking Benchmark Autumn 2015 Report*).

CYBG Group has also introduced free-phone telephone numbers in order to further enhance the customer experience and inspire confidence in its telephony channel.

6.6 ***ATMs***

CYBG Group continues to invest in its ATM network. As at 30 September 2015, CYBG Group held 894 ATMs (427 of which were Clydesdale Bank branded and 467 of which were Yorkshire Bank branded) in the CYBG Group network across the UK. In the period from June 2010 to February 2011, CYBG Group replaced over 540 ATMs. CYBG Group expects to introduce 100 new ATMs in 2015 as well as improvements for dispensing polymer notes.

7. Employees and Operational Functions

7.1 ***Employees***

In the year ended 30 September 2015, CYBG Group had an average of 7,247 on and off payroll FTEs, including an average of 431 contractors and casual contracts primarily to supplement the permanent employee base within the operations and IT functions. As at 30 September 2015, 47 per cent. of CYBG Group business and private banking staff and approximately 50 per cent. of retail staff had more than ten years of banking experience with CYBG Group.

CYBG Group has implemented a number of changes to its organisational structure in order to streamline reporting lines and create specific teams to focus on key priority areas such as customer experience and conduct matters. The majority of these teams were transferred from retail banking areas. These changes include:

- Consolidation of a number of customer focused areas to create the Customer Experience and Marketing team in 2014 which focuses on customer service improvements. In 2014, 285 FTEs were transferred from retail banking to this team; and
- Creation of the Customer Trust and Confidence team in 2014 to provide greater focus on conduct issues, involving the transfer of 79 FTEs from retail banking and the recruitment of an additional 88 FTEs.

According to a 2015 CYBG Group employee engagement survey, 93 per cent. of employees replied favourably that they understood how to contribute to meeting the needs of customers, a one per cent. increase from 2014.

The following table shows a breakdown of the average number of CYBG Group employees by function for the periods indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
Average number of persons employed				
Managers	2,449	2,344	2,436	2,588
Clerical staff	4,367	4,355	4,355	5,078
Total on payroll FTE	6,816	6,699	6,791	7,666
Contractors	431	451	410	482
Total on and off payroll FTE	7,247	7,150	7,201	8,148

The following table shows a breakdown of CYBG Group employees by segment as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
Business and private banking	1,164	1,221	1,173	1,883
Retail	2,834	3,065	2,976	2,993
Support	3,246	2,992	2,864	3,023
Total	**7,244**	**7,278**	**7,013**	**7,899**

As at 30 September 2015, all of CYBG Group's employees were covered by one collective bargaining agreement with Unite trade union. CYBG Group has a well-established relationship with its employees and there have been no labour disruptions or material claims by employees in the period from 1 October 2011 to 30 September 2015.

In April 2015, CYBG Group received the Best Employer Brand Award at the annual s1jobs Recruitment Awards as the employer that jobseekers in Scotland would most like to work for as voted for by s1jobs users (Scotland's largest employee recruitment site), performing better than other large corporate brands.

CYBG Group's remuneration arrangements are fully compliant with all regulatory requirements, in particular the PRA Remuneration Code. For additional information on CYBG Group's remuneration policy, see Part 14: "*Additional Information – Articles of Association – Directors – Remuneration*".

7.2 ***Operational functions***

CYBG Group's operations units are based in Glasgow and Leeds with certain mortgage processing outsourced to Genpact Inc. CYBG Group's operations function has two main areas: (i) payments and cash services, comprising payments operations, industry and scheme liaison, note issuance and cash operations; and (ii) retail and lending services, which provides back office processing and administration for all product groups. Both service centres are low cost and can be flexed on demand to accommodate changing business and customer needs.

CYBG Group relies on third-party supplier relationships to provide certain services and maintain efficiency. CYBG Group has proven operating model flexibility in response to demand changes, with demonstrated performance against service level agreements (exceeding or fully meeting availability commitments both internally and externally for eight consecutive years, with average customer facing service availability of 99.91 per cent. from 31 March 2015 to 30 September 2015) and quality targets through peaks and troughs, successfully managing variations in systems and capacity, origination fulfilment and ISA processing. As at 30 September 2015, CYBG Group has designated 36 suppliers as "Category 1", meaning that the services provided under these agreements are considered critical for CYBG Group's day-to-day operations. These services include:

- Product related services such as mortgage processing, debit/credit card production, credit card processing and ATM transactions, cash management and cash in transit;
- Customer services, including call centre support;
- IT services, including application development and testing services;
- Property management; and
- Administrative services such as printing, post/couriers and document storage.

Payments to Category 1 suppliers represented approximately 40.2 per cent. of CYBG Group's total supplier expenditure for the year ended 30 September 2014 and approximately 43.1 per cent. for the year ended 30 September 2015.

7.2.1 *Payments and cash services*

The payment and cash services unit provides a number of critical banking services, including third-party relationship management, compliance with applicable legislation and payment scheme rules, and robust governance models for the end-to-end payment process. CYBG Group is one of only eight full clearing bank institutions in the UK and is a direct member of the following UK and International payment schemes: CHAPS, SWIFT, BACS, Faster Payment Service, Cheque and Credit Clearing, LINK, Target 2, SEPA and the managed services Current Account Switching and PAYM. CYBG Group's externally measured service availability of LINK, CHAPS and Faster Payment Service all compare favourably with UK competitors. CYBG Group processed approximately 24.5 million outgoing UK Faster Payments transactions and 151 million in inward UK BACS payment transactions for the year ended 30 September 2015. CYBG Group does not have an agency agreement for its payments and clearing bank services, resulting in retention of transaction and foreign exchange fees. CYBG Group is an authorised credit institution and account servicing payment service provider as defined in the 2015 Payment Services Directive ("**PSD 2**") and is fully engaged with PSD 2 at an industry level through the Payment UK PSD working group with other UK banks. CYBG Group has also established an internal working group comprised of key stakeholders (both business and technology) to assess the impact of this regulation on the organisation.

Clydesdale Bank is the largest of three commercial banknote issuers in Scotland and one of only ten commercial banks globally authorized to issue bank notes (in addition to the central banks), with a market share of Scottish notes in circulation as at 31 March 2015 of 44 per cent. (or £1,791 million as at 30 September 2015). Scottish banknote issuance is undertaken in accordance with the Scottish and Irish Bank Notes Act regulated by the Bank of England and all Clydesdale Bank banknotes are cash collateralised by an equivalent deposit at the Bank of England. Clydesdale Bank distributes banknotes through its branches and ATMs as well as to other financial institutions and third parties across Scotland, thereby promoting widespread recognition of the Clydesdale Bank name.

Clydesdale Bank has been issuing banknotes since 1838, and is one of only three banks in Scotland that issues banknotes. In 2009, Clydesdale Bank introduced the Scottish World Heritage paper banknote series, which celebrates the best of Scotland's heritage, people and culture and won the 2010 Best New Banknote Series Award from the International Association of Currency Affairs. In March 2015, Clydesdale Bank became the first issuer of polymer banknotes in Great Britain with a £5 polymer note incorporating the latest security features. CYBG Group's strategy for the next three years is focused on maintaining existing notes distribution partnerships with third parties, based on the Directors' belief that the note issuing market is relatively mature. The Directors believe the issuance of polymer notes will enhance Clydesdale Bank's reputation as a leading innovator in banknote issuance and help maintain its position as the predominant commercial issuer of banknotes in Scotland.

7.2.2 *Retail and lending services ("RLS")*

RLS processes new business via a centralised service platform to deliver product servicing and maturities across the bank, with employees based in two key centres, Clydebank and Leeds. The Clydebank centre focuses on select processes, including mortgage processing, estate administration, term deposits, cash ISAs, and unpaid cheques, while the Leeds centre processes a wider variety of services for retail as well as business and private banking.

8. Information Technology

The IT business unit is based in Glasgow. IT is focused across two areas, providing day-to-day operational services and managing the overall IT systems landscape for CYBG Group, which is done through a combination of in-house developed applications, packages and externally hosted services. The IT business unit also contains the bank procurement team and is responsible for supplier management. CYBG Group's current operating platform reflects the successful integration of the Clydesdale Bank and Yorkshire Bank systems following the merger, reducing cost and complexity of regulatory and mandatory change. Both retail and business front end applications are supported by a shared mainframe.

This team is based in Glasgow and is augmented by the use of various third-party providers, including IBM for certain technology services, BT for telecom services, Accenture and Syntel for outsourced application development and support services across a number of technology areas.

CYBG Group's existing structure is scalable to meet future demand, with recent investments in a new IBM mainframe, additional enterprise service bus (ESB) capacity, a major upgrade to the core banking lending platform and a replacement payments platform. This scalable payments platform provides a wide ranging suite of payments functionality. CYBG Group has also deployed new functionality in the mobile and digital arenas.

The IT and operations businesses benefit from an experienced and loyal workforce, with 66 per cent. of staff having been employed by the group for five years or more and 33 per cent. of this group having at least 15 years of service as at 30 September 2015.

8.1 ***IT systems***

CYBG Group has a centralised IT model, which supports the needs of retail, business and private banking as well as enterprise support services. The IT team is structured into five fully scalable areas. These areas are:

- Strategy & Architecture: this team is responsible for defining the operations and IT business unit strategy, defining the technology strategy for CYBG Group, defining the target technology architecture for CYBG Group and associated roadmaps, and owning and administering the architectural governance framework;
- Development Centre: this team is responsible for application and software design, software development, software testing and implementation, applications maintenance and support, and infrastructure design;
- Procurement and IT Service: this team is responsible for IT operational services including telecoms, hardware and application installation, technology support and third-party supplier oversight, managing IT incidents and disaster recovery processes, and undertaking third-party oversight on behalf of CYBG Group via its supplier council;
- Information Security and Governance: this team is responsible for preventative and detective security controls for asset protection, threat and information security incident management and regular compliance comparisons to industry-recognised security configurations; and
- Management Assurance: this team is responsible for ensuring that the bank maintains an appropriate risk framework across the business unit, oversight of the risk profile and risk reporting and independent risk control testing.

The IT resourcing strategies across these five areas balance the need for continuity and agility. Relationships with market-leading third-party providers have been and will continue to be undertaken selectively in areas where niche skills are more difficult to maintain at a consistent level. However, maintaining a permanent skilled in-house team is critical to the success and functionality of the IT framework. While most of the key applications are run by CYBG Group, NAB will continue to provide certain services in the areas of credit and risk, finance, human resources and treasury under the TSA. For additional information, see Part 14: "*Additional Information – Material Contracts – Transitional Services Agreement*".

CYBG Group has made a significant investment in upgrading the core lending platform to the current version resulting in all mortgage and personal lending being consolidated into one location. Other investments include delivery of a mobile banking platform with PAYM functionality, replacement of a legacy high value payments platform with a modern packaged solution, enhancements to online banking including a simplified registration process, introduction of customer two factor authentication and a redesigned customer interface. In March 2014, CYBG Group's IT team received the Data Governance Project of the Year Award from FStech, an industry organisation that recognises excellence and innovation in the field of information technology in the UK and EMEA financial services sector. CYBG Group has also received awards for the performance of its data centres, achieving silver level status for compliance with the EU Code of Conduct for Energy Efficiency as well as business continuity awards.

8.2 ***Streamlined operational efficiencies***

CYBG Group has a proven track record of execution of simplification initiatives to streamline operational efficiency and de-risk the franchise.

- Customer Platform Delivery: Current account switching and mobile application rollout. CYBG Group's state of the art solution for executing its current account switching scheme with sophisticated automation resulted in the elimination of manual processes, saving approximately 145 FTEs, while providing a seamless service. CYBG Group's introduction of the mobile application (rolled out in eight months) led to mobile logins surpassing internet logins within 15 months of launch. CYBG Group has been rated as having the best switching service and mobile banking app in the March 2015 uSwitch.com survey.
- Outsourcing: CYBG Group uses selected outsourcing arrangements with reliable and industry-leading third-party suppliers to maintain flexibility in its cost base and facilitate scalability. Projects included UK market first ATM/POS outsourcing which delivered new large screen

ATMs, 95 per cent. ATM cash dispensing availability, and 100 per cent. availability to LINK for ATM interchange between March and August 2015. However, CYBG Group does not outsource any of its core banking or payment systems.

- Procurement: CYBG Group operates a hybrid procurement model with critical, strategic procurement managed by a specialist in-house team and all other procurement activity outsourced to Xchanging plc achieving gross savings of £12 million in the year ended 30 September 2015.
- Platform and Systems Migration: Platform convergence, entity sale and exit and data centre replacement. CYBG Group successfully merged its back-end systems, improving functionality and performance of sales and service offerings. CYBG Group also shared systems with two Irish banks and successfully extracted and transferred the data as well as migrated the systems dedicated to the Irish banks as part of the entity sale and exit. The migration of 1.2 million customer records was completed within three days and the data migration was completed over 4 days. CYBG Group's data centre replacement was the single largest UK "lift and shift" hardware operation at the time. CYBG Group's data centres have the capacity to grow by approximately 50 per cent. CYBG Group has also consolidated four banking licenses into one.
- Large Scale Business Change: CYBG Group undertook an FTE reduction and enterprise optimisation exercise, alongside comprehensive branch rationalisation and branch modernisation initiatives. As a result, CYBG Group reduced headcount by 44 per cent. which lead to direct reductions to the cost base of approximately 30 per cent. during the period from the year ended 30 September 2011 to year ended 30 September 2013. CYBG Group also moved 23,000 customers to Business Direct from the year ended 30 September 2012 to the year ended 30 September 2015, closed 53 properties, 35 branches, and 18 business and private banking centres as well as migrated administration workload from 72 business and private banking centres into 4 regional customer service centres, going from only 15 per cent. of business sites being co-located to 70 per cent. as at 30 September 2015.

9. Relationship with NAB

This section describes the ongoing relationship CYBG Group will have with NAB following Admission and, in particular, sets out operational details of the transitional services arrangements with NAB under the TSA and RTSA.

9.1 *Transitional Services Arrangements*

In preparation for its separation from NAB, and operation on a standalone basis, CYBG Group has developed its own operational capabilities in certain functional areas including shareholder services and investor relations.

However, from separation, CYBG Group will continue to receive a range of banking operation services from NAB under the TSA on a transitional basis.

Each of the transitional arrangements agreed between CYBG Group and NAB under the TSA will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone solution within a certain timeframe. It is intended that CYBG Group will have full standalone arrangements in place by 31 December 2018. The TSA services that are proposed to be provided by NAB to CYBG Group include:

- Risk (3-34 months) – processing of CYBG Group's data on NAB's credit risk engine to support regulatory reporting on credit risk weighted assets (including monthly calculations on both standardised and foundation IRB basis); liquidity, IRRBB, market risk management and reporting systems; maintenance and support services for customer rating and credit stress testing models, as well as data consolidation services for stress testing; calculation of credit economic capital, regulatory and economic operational risk capital; and lastly, technology support for the operational risk portal;
- Treasury (3-34 months) – access, infrastructure and application support to NAB's deal capture and processing systems for treasury transactions; operational support for confirmation, management of collateral, payment and settlement of transactions entered into by CYBG Group; maintenance of static data; premises (dealing room, infrastructure and desk space); and

temporary housing of CYBG Group's London-based Treasury team. In addition, services to be provided include reporting from treasury platforms to support monitoring of market risk, non-traded market risk, liquidity and balance sheet risk, as well as access and support for the credit risk exposure management and reporting system;

- Human Resources (12 months) – technology support services for CYBG Group's human resources management system; and
- Finance (12 months) – technology and business support services for financial consolidation and reporting systems, as well as calculation of funding and credit valuation adjustments for CYBG Group's derivative portfolio.

For a summary of the contractual terms of the TSA, see Part 14: "*Additional Information – Material Contracts – Transitional Services Agreement*"), and for additional information on a range of potential risks in connection with CYBG Group's reliance on service arrangements with NAB, see "*Risk Factors – Risks Relating to CYBG Group's Relationship with NAB*".

9.2 *CYBG Group's support of NAB's London Branch*

As part of CYBG Group's operational separation from NAB, CYBG Group will provide certain operational support services to NAB's London branch under the RTSA. Each of the transitional arrangements agreed between NAB and CYBG Group under the RTSA are accompanied by a plan to migrate from the transitional arrangement to a NAB standalone solution within a certain timeframe. It is intended that CYBG Group will no longer be providing transitional services to NAB by 31 December 2018. The transitional services that are proposed to be provided by CYBG Group to support NAB's London branch are limited to technology services including hosting, data centre, domain name and network connectivity services in the UK.

9.3 *Swaps*

NAB is intending to provide a third-party clearing service to CYBG Group for central clearing of derivatives transactions (primarily swaps), in compliance with the clearing obligations under EMIR (which obligations are yet to come into force), through LCH.Clearnet Ltd. The clearing relationship is on an arm's length basis, and both CYBG Group and NAB utilise market standard third-party technology to support the clearing of trades and novation to LCH.Clearnet Ltd. It will be contracted under market standard documentation.

9.4 *CRE loans*

Discussions are ongoing between NAB and CYBG Group about whether CYBG Group may repurchase specific CRE loans (up to approximately £250 million) within the legacy CRE portfolio previously disposed of to NAB where it may be appropriate for the customer relationship or to enable any disputes to be retained and managed directly by CYBG Group. Should any such repurchases proceed then NAB and CYBG Group currently intend that the relevant transfer agreements will be entered into and completed over the 12 months following the Demerger.

10. Liquidity and Funding

CYBG Group has a diversified funding mix, a strong base of predominantly lower-cost retail customer deposits, proven access to wholesale secured funding and limited reliance on short-term wholesale funding, which the Directors believe provide a stable source of funding for the growth of its business. CYBG Group has improved its funding position and reduced its funding costs in recent years by growing its lower-cost current account funding, which increased from £10.7 billion as at 30 September 2012 to £13.0 billion as at 30 September 2015, increasing its medium and long-term wholesale funding and reducing the volume of its more expensive fixed-rate term deposits. As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6 per cent. of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks, which totalled £31,506 million at 30 September 2015).

10.1 *Liquidity*

CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. CYBG

Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of CYBG Group and to enable CYBG Group to meet its financial obligations.

As at 30 September 2015, CYBG Group's LCR ratio was 136 per cent. and its NSFR ratio was 120 per cent.

CYBG Group maintains a liquid asset portfolio that includes primarily cash in deposits with central banks and UK Government gilts. CYBG Group manages this portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets.

Overall, liquid assets decreased from £8,968 million as at 30 September 2012 to £7,695 million as at 30 September 2013 and £7,154 million as at 30 September 2014. During this period, CYBG Group reduced excess liquidity by reducing low yielding cash and balances with central banks while maintaining a prudent level of liquid assets in excess of PRA regulatory requirements. As at 30 September 2015, liquid assets increased to £7,893 million, reflecting strong growth in retail funding in excess of lending in the year and partial pre-funding of customer asset growth.

For further information regarding CYBG Group's liquidity, see Part 5: "*Operating and Financial Review – Funding, Liquidity and Capital Resources – Liquidity*".

10.2 ***Funding***

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. In recent years, CYBG Group has experienced strong growth in current accounts balances, while more expensive term deposits have significantly decreased.

CYBG Group aims to manage its balance sheet so that customer asset growth is matched with sustainable retail deposit growth, which CYBG Group monitors through the LDR. CYBG Group's LDR was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015.

CYBG Group also actively seeks to diversify its funding mix through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. CYBG Group issued £1.1 billion of external covered bonds in June 2012. In terms of external RMBS, CYBG Group issued €615 million in March 2012, $800 million and £525 million in July 2012, £350 million and $300 million in July 2013, £350 million and €300 million in March 2014, €550 million and £275 million in December 2014 and £300 million and €280 million in August 2015 through the Lanark securitisation programme. The tenor of the bonds to their call date ranges from 3 to 14 years, which helps to provide a stable funding base for CYBG Group.

10.3 ***Due to related entities***

During the period under review, CYBG Group has significantly reduced the extent of senior funding from NAB and obtained an increasing proportion of its funding from retail deposits and secured wholesale term funding (in the form of RMBS and covered bonds). In 2012, CYBG Group repaid intragroup funding to NAB in the amount of £5,084 million with proceeds from the disposal of the legacy CRE portfolio to NAB. In December 2013, CYBG Group redeemed £300 million of Additional Tier 1 capital. In December 2014, £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties was also redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as the introduction of a 25 per cent. capital limit under Pillar 2A. These instruments were replaced by an issue of £350 million of ordinary shares to NAB related parties and issues of Additional Tier 1 capital instruments of £450 million to NAB. As a result of these and other transactions, total amounts due to related entities decreased to £998 million as at 30 September 2015 from £7,716 million as at 30 September 2012. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 subordinated debt, with an equivalent amount of new Additional Tier 1 capital instruments and Tier 2 subordinated debt. For additional information, see Part 14: "*Additional Information – Funding Programmes,*" Part 5: "*Operating and Financial Review – Funding, Liquidity and Capital Resources – Capital Position"* and Part 14: *"Additional Information – Material Contracts – Demerger Implementation Deed*".

As at 30 September 2015, deposit amounts due to related parties amounted to £125 million. This included a £100 million loan that was repaid in October 2015, three months earlier than the maturity date. In July 2015, CYBG Group repaid £312 million of senior funding from NAB at contractual maturity. Following the demerger of CYBG Group from NAB and the Global Offer, CYBG Group expects amounts due to NAB to further decrease as NAB funding is replaced at maturity through like for like issuance. For additional information, see Part 5: "*Operating and Financial Review – Funding, Liquidity and Capital Resources – Funding and Funding Strategy – Due to related entities*".

11. **Capital Adequacy**

CYBG Group's CET1 ratio was 9.6 per cent. at 30 September 2013, 9.4 per cent. at 30 September 2014 and 13.2 per cent. at 30 September 2015.

On 20 December 2013, CYBG Group replaced £100 million of perpetual non-cumulative preference shares and £200 million of hybrid Tier 1 capital instruments, which were not compliant with Basel III requirements for loss absorbency, with the issue to NAB of £300 million of perpetual capital notes. The perpetual capital notes are structured to qualify as Additional Tier 1 capital under CRD IV. CYBG Group also issued an additional £300 million of ordinary shares to NAB on 27 March 2014.

In December 2014, CYBG Group redeemed £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties, which would have been ineligible under CRD IV as at 1 January 2015, and replaced it with an issue of £350 million of ordinary shares to NAB related parties and Additional Tier 1 capital instruments of £150 million to NAB.

The gains arising as a result of CYBG Group's regulatory capital actions in 2014 were held to enhance CYBG Group's CET1 capital and CET1 capital ratio. The capital benefits from balance sheet optimisation in 2014 resulted in a reduction in credit risk-weighted assets, however this was partially offset by the impact of conduct charges incurred in the year and the capital deductions arising from the introduction of CRD IV.

Between June and September 2015, CYBG Group issued to NAB 2 ordinary shares at their nominal value of £0.10 per share with a total share premium of £670 million as part of the preparation for the Demerger and the Global Offer. These actions led to a significant strengthening of the CET1 ratio.

On 24 September 2015, £465 million forming part of the £670 million total share premium was provided to CYBG Group by NAB by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity in its accounts for the year ended 30 September 2015.

The table below sets out the capital position and capital ratios of CYBG Group on a CRD IV basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA. For additional information, see Part 5: "*Operating and Financial Review – Funding, Liquidity and Capital Resources – Capital Position*".

	As at 30 September	
	2015	2014
	CRD IV	CRD IV
	(£m, except %)	
CET1 capital	2,405	1,747
Additional Tier 1 capital instruments	450	300
Total Tier 1 capital	2,855	2,047
Tier 2 capital	598	1,260
Total capital	3,453	3,307
Capital ratios:		
CET1 ratio	13.2%	9.4%
Tier 1 ratio	15.7%	11.0%
Total capital ratio	18.9%	17.7%

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 subordinated debt, with an equivalent amount of new Additional Tier 1 capital instruments and Tier 2 subordinated debt. For additional information, see Part 5: "*Operating and Financial Review – Funding, Liquidity and Capital Resources – Capital Position"* and Part 14: *"Additional Information – Material Contracts – Demerger Implementation Deed*".

12. **Community Outreach and Charitable Giving**

The Yorkshire and Clydesdale Bank Foundation provides support to a large number of charities across the UK, distributing over £864,000 to over 350 causes in the year ended 30 September 2015, including £149,562 to CYBG Group's employee volunteer grants programme. CYBG Group's charity relationship with Hospice UK is now in its eighth year and over £4.5 million has been raised in this time, including matching donations from CYBG Group. In addition, as of 30 September 2015, 19 per cent. of employees donated to their chosen charities through payroll giving, and CYBG Group's employees volunteering policy offers all employees the opportunity to take two days paid leave to work in their local communities.

13. **Corporate Structure**

The Company is the ultimate parent company of Clydesdale Bank (after giving effect to the Demerger and the Global Offer) and indirectly owns 100 per cent. of the ordinary shares of Clydesdale Bank. A list of what will, following implementation of the Demerger, be the Company's significant subsidiaries is set out in Part 14: "*Additional Information*".

The Company is a public limited company, incorporated in England and Wales, whose principal activity will, following Demerger, be to act as the holding company for CYBI and Clydesdale Bank. Clydesdale Bank has no material operations outside the UK. Neither the Company nor CYBI holds a UK banking licence and only CYBI undertakes limited economic activity beyond its principal activity, with all operations undertaken through UK registered entities. The only non UK registered entities of CYBG Group are two trustee companies that are part of CYBG Group's securitisation vehicles. Clydesdale Bank is an "authorised person" under the Financial Services and Market Act 2000 and is regulated by the PRA and FCA. For more information on Clydesdale Bank's regulatory status, see Part 10: "*Supervision and Regulation*".

14. **Conduct**

Conduct-related issues, including PPI customer redress, have had a significant impact on the profitability of participants in the UK retail banking market, including CYBG Group, in recent years. CYBG Group has been implementing a comprehensive programme intended to ensure continued improvements in the handling of all complaints, and work continues to be done to address identified legacy conduct issues. In response to regulatory actions and legacy conduct issues, CYBG Group has raised PPI customer redress provisions, as well as provisions for other conduct-related matters, including the sale of IRHP (which includes Standalone IRHP and Voluntary Scope TBLs) and certain FRTBLs which are, or previously have been, subject to customer complaint. For additional information, see Part 5: "*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress*". As a consequence of the changes that have been made in response to regulatory actions, as well as the changes implemented by CYBG Group's conduct framework, as described below, the Directors believe that both oversight and governance of CYBG Group's historical PPI complaints have been overhauled.

CYBG Group is working to remediate a number of other issues which have not had and are not expected to have a material impact on CYBG Group's financial position, operations or profitability. A training and competency framework has been implemented for complaint handling teams, with all staff enrolled in ongoing fair outcome training programmes.

CYBG Group has a clear set of objectives and desired outcomes to achieve in respect of its conduct towards its customers. These target objectives and outcomes are designed to ensure fair customer outcomes and are described within CYBG Group's conduct framework (the "**Conduct Framework**"). At the core of CYBG Group's Conduct Framework are the six Treating Customers Fairly outcomes as defined by the FCA. The overall Conduct Framework is the responsibility of the CEO and the implementation of each element of the Conduct Framework is assigned to an executive team member. CYBG Group undertakes regular assessment of these elements with a view to monitoring that the Conduct Framework is executed properly. CYBG staff complete, as part of their annual compliance training, a Customer Focused e-Learning module which covers the importance of being customer focused and delivering fair customer outcomes. CYBG Group places importance on customer outcomes in staff performance scorecards of all staff, creating employee accountability and incentivising better customer engagement.

In addition to the Conduct Framework, CYBG Group has a customer fairness model for the identification and management of potential conduct issues (the "**Customer Fairness Model**"). The Customer Fairness Model is governed through CYBG Group's Customer Fairness Board. In 2013, CYBG Group also implemented an enhanced product governance framework with a standardised "best practice" model across product management (the "**Product Governance Framework**") that the Directors believe has led to improved and consistently delivered fair customer outcomes. This Product Governance Framework incorporates a review of new products and changes to existing products, and is designed to ensure that both on and off-sale products are subject to a periodic formal review, with higher risk products being subject to approval by the Board risk committee and then reviewed annually. CYBG Group has assessed its products in order to categorise products by risk category into high, medium and low risk products. CYBG Group has conducted a detailed review of products it has categorised as high risk products and is in the process of reviewing products that it has categorised as medium and low risk products. For example, CYBG Group has conducted two in-depth annual product reviews of its packaged bank account product under the Product Governance Framework and did not identify any systemic issues with this product. The frequency of these periodic reviews is risk based and driven by an assessment of an individual product against five key risk factors: target market, complexity, performance, reputation and commercial risk, taking into account customer feedback. Additionally, five new product manager roles and 11 new senior product analyst roles were created to support this strengthened focus on product governance.

In January 2014, CYBG Group created a Customer Trust and Confidence division to provide clear accountability for all conduct-related matters and centralise activity across legacy back book issues. The Customer Trust and Confidence division is led by an executive director. Within the Customer Trust and Confidence division, CYBG Group has established a Customer Remediation Centre of Excellence, which includes a team of skilled employees working across customer remediation activities. These employees are responsible for developing and implementing and seeking to ensure that a consistent approach to best practices, project structure and discipline as well as that agreed remediation principles are followed to facilitate consistent and fair customer outcomes. A redress forum is responsible for agreeing the redress approach for all remediation initiatives, which is intended to ensure a consistent approach to redress.

Management use a detailed conduct performance dashboard to monitor CYBG Group's progress in becoming a trusted UK retail bank, including monitoring the processes for managing conduct redress activity.

Conduct Mitigation

Introduction and Scope of Coverage

As part of the Demerger, NAB and the Company have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide the Company with the Capped Indemnity in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". The Capped Indemnity provides CYBG Group with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

(i) PPI, Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and

(ii) other conduct matters, measured by reference to the following thresholds (a) claims relating to an industry wide compensation customer redress programme entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate, and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to the Demerger Date whether or not known at the Demerger Date. For these purposes, "conduct in period prior to the Demerger Date" includes acts, omissions and agreements by or on behalf of CYBG Group with respect to CYBG Group or CRE customers in relation to the period prior to the Demerger Date which either constitute a breach of or failure to comply with, or are determined by the Company in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with, applicable law or regulations.

Claims may be made by the Company under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter. Any existing provisions for Relevant Conduct Matters are, where possible, to be utilised by CYBG Group prior to a member of CYBG Group raising new provisions or increasing existing provisions that fall within the scope of the Capped Indemnity (and thereby giving rise to a claim under the Capped Indemnity).

Amounts payable under the Capped Indemnity include, subject to certain limitations, provisions raised or increased in respect of payments to customers to satisfy, settle or discharge a Relevant Conduct Matter and of the direct costs and expenses of satisfying, settling, discharging or administering such Relevant Conduct Matter. The Capped Indemnity does not extend to indirect costs nor penalties or other financial losses which may be incurred by CYBG Group in respect of the mishandling of a Relevant Conduct Matter by CYBG Group during the period following the Demerger. In addition, whilst the Capped Indemnity covers claims resulting from changes in the generally accepted application or interpretation of laws or regulations, it does not cover claims arising from the retrospective application of new laws and regulations.

Capped Indemnity Amount, Unutilised Provisions and Unutilised Indemnity Amount

At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will take responsibility for £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement (described below), with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015. This amount of £465 million, plus the amount of any further provisions in respect of Relevant Conduct Matters raised or increased by CYBG Group in respect of which capital support is provided by NAB prior to the Demerger, is the "**Pre-Covered Provision Amount**".

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date and that as a result the Pre-Covered Provision Amount is £465 million.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities as at the Demerger Date (the amount of such provisions, including the Pre-Covered Provision Amount, "**Pre-Demerger Provision Amounts**"), being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and (iii) provisions of £20 million for other conduct related matters. The support provided by the Capped Indemnity, in addition to the £986 million in unutilised provisions remaining as at 30 September 2015, provides total cover for conduct costs of £2.1 billion (without taking account of the Loss Sharing Arrangement).

The amount of support available pursuant to the Capped Indemnity at any given time following the Demerger Date will be the "**Unutilised Indemnity Amount**", being the Capped Indemnity Amount less the following agreed deductions:

- The Unutilised Indemnity Amount will be reduced to the extent of any payments made pursuant to the Capped Indemnity (net of any repayments to NAB made by the Company following a release or reduction of a provision of a member of CYBG Group for Relevant Conduct Matters).
- The Unutilised Indemnity Amount will also be reduced to the extent of any interest or tax deduction applied or required to be applied by CYBG Group against provisions of a member of CYBG Group for Relevant Conduct Matters pursuant to the Conduct Indemnity Deed.
- The Company and NAB will use reasonable endeavours to ensure that the PRA undertakes a periodic reassessment of the potential remaining exposure of CYBG Group to conduct costs in

conjunction with the submission of CYBG Group's ICAAP to the PRA. The Unutilised Indemnity Amount will be permanently reduced following any reassessment by the PRA that the potential remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount from time to time plus any unutilised Pre-Demerger Provision Amounts and the Company's outstanding liability under the Loss Sharing Arrangement (being any unused portion of the Company's £120 million share under such arrangement).

In addition, under the terms of the Conduct Indemnity Deed, NAB will reimburse the Company for any reasonable out-of pocket costs of CYBG Group in implementing investments in its operational efficiency programmes (less the Company's Loss Share of such costs), provided that, where such costs are in excess of £2 million in any financial year of CYBG Group, NAB and the Company have each approved such investments. The Unutilised Indemnity Amount will be reduced by the amount of any reimbursements made by NAB for such costs.

Loss Sharing Arrangement

In order to align the interests of NAB and the Company with respect to each claim under the Capped Indemnity, it has been agreed that NAB will pay to the Company an amount equal to any new provisions (or the amount of any increases in existing provisions) raised by a member of CYBG Group for Relevant Conduct Matters on a fixed proportional basis ("**Loss Sharing Arrangement**"). Under the Loss Sharing Arrangement, the Company will be responsible for that portion of the relevant conduct liabilities forming part of the relevant provision which equates to the proportion that £120 million bears to the sum of the Capped Indemnity Amount plus £120 million at the Demerger Date (the "**Aggregate Exposure Amount**"), expressed as a percentage (the "**Loss Share**"). At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion and therefore the Loss Share is expected to be fixed at 9.7 per cent. If there is no further specific support provided by NAB for Relevant Conduct Matters prior to implementation of the Demerger, the Loss Share will remain fixed at 9.7 per cent.

Collateral Account

NAB will collateralise certain of its obligations under the Capped Indemnity from the Demerger Date by placing a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount from time to time (the "**Collateral Account**") and over which a security interest at least equivalent to a floating charge will be granted in favour of the Company. If NAB wishes to implement an alternative collateral arrangement to replace the Collateral Account, the Company and NAB will discuss and seek to agree in good faith such alternative arrangements. The Company may not unreasonably withhold its consent to such arrangements if such alternative arrangements would not reasonably be expected to prejudice the ability of the Company to obtain payment of amounts otherwise payable from the Collateral Account. If any such arrangements are agreed between the Company and NAB, they must obtain the approval of the PRA before implementing those arrangements. The Collateral Account is only for the purposes of providing security for NAB's obligations under the Capped Indemnity. Claims under the Capped Indemnity will therefore be met by NAB directly with an equivalent amount being released from the Collateral Account back to NAB upon satisfaction of NAB's payment obligations. Any interest payable on the Collateral Account is payable to NAB.

Designated Account

Any amount paid to the Company pursuant to the Capped Indemnity will be deposited in a designated account at Clydesdale Bank in the name of the Company. The Company may, at its option, downstream the funds received to members of CYBG Group by way of one or a series of equity subscriptions, provided that the funds are credited to a designated account in the name of a member of CYBG Group (a "**Designated Account**") at all times. The Company will also transfer to a Designated Account prior to the Demerger Date, any portion of the Pre-Covered Provision Amount which is unutilised at the date of such transfer. Funds in a Designated Account will only be released when CYBG Group incurs and pays a conduct cost that falls within the scope of the Capped Indemnity. If CYBG Group incurs and pays such a cost, it may withdraw from a Designated Account(s) an amount equal to such costs on a quarterly basis. The amounts standing to the credit of the Designated Account(s) may not be withdrawn or allocated by CYBG Group for any other purpose (but without prejudice to the use by Clydesdale Bank in the ordinary course of its business of the deposit placed with it). Any interest earned on amounts standing to the credit of a Designated Account is to be applied in respect of the next relevant provision raised or increased by a member of CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity.

Release or Reduction of Provisions

If any provision forming part of a Pre-Demerger Provision Amount or any portion of CYBG Group's unutilised provisions for Relevant Conduct Matters which have been covered by the Capped Indemnity (the "**Unutilised Covered Amount**"), is no longer required such that it is released or reduced, the aggregate amounts of provisions released or reduced (or, in the case of the Unutilised Covered Amount, the proportion thereof reflecting NAB's share under the Loss Sharing Arrangement) must be applied against the next relevant provision raised or increased by a member of CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity. Where the aggregate amounts of provisions released or reduced are greater, by £15 million or more, than the provisions or increases within the scope of the Capped Indemnity which the Company believes will be raised by CYBG Group in the following 12 months, such excess amount shall be repaid to NAB (with a corresponding adjustment to the Unutilised Indemnity Amount in the amount of any excess which is repaid to NAB).

Information Rights and Dispute Resolution

Although the Company has sole conduct of Relevant Conduct Matters, NAB has the benefit of certain information, consultation and audit rights in relation to Relevant Conduct Matters and claims made under the Capped Indemnity. In addition, a joint conduct review committee comprising representatives of the Company and NAB has been established which is responsible for the oversight and governance of the Capped Indemnity arrangements.

The Capped Indemnity is also subject to a dispute resolution procedure which may result in any unresolved issues being determined by a third-party expert or by court proceedings. If the dispute relates to a matter which is determined to be a continuing material breach by the Company of its obligations under the Conduct Indemnity Deed to, among others, cooperate in relation to the assessment by the PRA of the potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims made under the Capped Indemnity and withdrawals from the Designated Account(s), NAB will be entitled to suspend any part of a Capped Indemnity payment and the Company will be prohibited from withdrawing an amount from the Designated Account(s) for so long as such breach is continuing, in each case which relates to the Relevant Conduct Matter in relation to which the Company is in material non-compliance. All other amounts under the Capped Indemnity will remain payable by NAB.

Duration and Termination

The indemnity protection provided by NAB to the Company in respect of Relevant Conduct Matters under the Capped Indemnity is perpetual in nature, except in the following circumstances:

(a) it is fully utilised by CYBG Group;

(b) in the event that, at any time post-Demerger:

    (i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or

    (ii) the Unutilised Indemnity Amount,

    is £100 million or less, NAB will have the right (with the approval of the PRA (at its sole discretion)) to terminate the Capped Indemnity by subscribing for Shares (at a price equivalent to the prevailing five-day average market price for the Shares) in an amount equal to the Unutilised Indemnity Amount, provided that the maximum value of the Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**£100 million Termination**"); and

(c) NAB and the Company may also agree arrangements to terminate or replace the Capped Indemnity with the consent of the PRA. In particular, NAB and the Company have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary of the Demerger), seek to agree arrangements to terminate the Capped Indemnity. If any such arrangements are agreed between NAB and the Company, they will be required to obtain the approval of the PRA (at its sole discretion) before commencing the implementation of such arrangements. In relation to proposals made by NAB to the Company in connection with such termination of the Capped Indemnity, the Company cannot unreasonably withhold its agreement to the Capped Indemnity being replaced by a payment equal to the Unutilised Indemnity Amount to be applied (in whole or in part) in subscribing for Shares (at a price equivalent to the prevailing five-day average market price for the Shares), provided that the maximum value of the Shares to be subscribed for pursuant to such proposal would not exceed £200 million or if lower, a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time (a "**Post-5 Year Equity Subscription Termination**").

If £100 million Termination or Post-5 Year Equity Subscription Termination occurs, the Company will not be entitled to make any further claims under the Capped Indemnity, but will be entitled to retain in the Designated Account(s) for a period of three years following such termination, any Unutilised Covered Amount and any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such termination. The Company will be required to return to NAB any other amounts in the Designated Account(s) and to release to NAB all amounts remaining in the Collateral Account. Following the expiry of such three-year period, the Company will be required to repay all remaining amounts in the Designated Account(s) net of any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such anniversary.

It would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the Listing Rules nor to obtain shareholder authority under the Companies Act to allot Shares to NAB, in order to implement a £100 million Termination. If the Company and NAB agree, with the PRA's consent, to terminate the Capped Indemnity pursuant to a Post-5 Year Equity Subscription Termination, it would not be necessary for the Company to seek shareholder approval pursuant to Chapter 10 or 11 of the Listing Rules (unless, in the case of Chapter 11, such arrangements are subject to material amendment) nor to obtain shareholder authority under the Companies Act to allot Shares to NAB, in order to implement a Post-5 Year Equity Subscription Termination.

The Company has been granted an authority to issue and allot Shares up to an aggregate nominal value of £200 million post-implementation of the Demerger in connection with any termination of the Capped Indemnity and to disapply pre-emption rights in respect of such issuances and allotments.

The Capped Indemnity will not automatically cease to apply nor will it automatically terminate upon any change of control of the Company, CYBI or Clydesdale or in the event of a sale of the relevant business and assets of a member of CYBG Group. However, prior to any change of control, the parties must cooperate in good faith to facilitate an assessment by the PRA to determine whether the Capped Indemnity should continue in the then amount or whether it should be terminated in whole or part. Any such assessment will be at the sole discretion of the PRA.

Taxation

It is not expected that payments to the Company under the Capped Indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has, as a term of the Sale and Purchase Agreement, agreed to compensate the Company for any actual tax incurred that would not have been incurred but for receipt of amounts by the Company under the Capped Indemnity or by members of CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments. In certain circumstances, CYBG Group may be liable to a tax charge in respect of payments to customers for Relevant Conduct Matters and NAB has also agreed, subject to certain limitations, to compensate the Company for those tax costs net of deductible expenses if they arise in respect of NAB's share of liability under the Loss Sharing Arrangement for Relevant Conduct Matters (together with the matters referred to in the preceding sentence, the "**Tax Indemnity Provisions**"). It is not expected that the Tax Indemnity Provisions will give rise to any net payment to the Company. Compensation will be paid when tax is incurred on the receipts or, where deferred tax assets are used to shelter tax on the receipts, when other income is subject to tax which would not have arisen but for the use of the deferred tax assets to shelter tax on the receipt of amounts under the Capped Indemnity, taking into account whether payments under the Capped Indemnity are taxable and whether the underlying customer compensation payments and related costs and expenses give rise to tax relief. To the extent actual tax becomes due, NAB will pay the Company an amount equal to such tax. The Unutilised Indemnity Amount will not be reduced for any payments made under the Tax Indemnity Provisions.

Should any amounts paid to the Company under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group in consequence of receipt of such payments) be subject to tax, it is not possible to determine the amount that may be payable under the Tax Indemnity Provisions as this will depend on tax legislation at the time the relevant payments (or subscriptions) become subject to tax. No changes to tax legislation are currently anticipated that would make such payments (or subscriptions) subject to tax however changes to UK tax legislation may be enacted at any time including before payments are due under the Tax Indemnity Provisions. Save for the Capped Indemnity and the Tax Indemnity Provisions, the Company has agreed to release the NAB Group from liability for any other conduct related claims by any member of CYBG Group against any member of the NAB Group.

PART 3
DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1. DIRECTORS

The Company's Directors are:

Name	Age	Position	Date Appointed
James Pettigrew	57	Chairman, Non-executive Director	27 August 2015
David Duffy	54	Chief Executive Officer	29 September 2015
Ian Smith	49	Chief Financial Officer	27 August 2015
Debbie Crosbie	45	Chief Operating Officer	27 August 2015
David Bennett	53	Independent Non-executive Director, Deputy Chairman	22 October 2015
Richard Gregory OBE	61	Senior Independent Non executive Director	29 September 2015
David Allvey	70	Independent Non-executive Director	29 September 2015
David Browne	58	Independent Non-executive Director	29 September 2015
Adrian Grace	52	Independent Non-executive Director	29 September 2015
Barbara Ridpath	59	Independent Non-executive Director	29 September 2015
Teresa Robson-Capps	60	Independent Non-executive Director	29 September 2015
Alex Shapland	55	Independent Non-executive Director	29 September 2015

The management expertise and experience of each of the executive Directors ("**Executive Directors**") and the non-executive Directors ("**Non-Executive Directors**") is set out below:

James Pettigrew, Chairman, Non-Executive Director

James Pettigrew joined CYBG Group in September 2012 and is a member of the Company Board's Remuneration Committee. He has over 30 years of experience as a chartered accountant. James' previous roles include Group Finance Director of ICAP PLC, Chief Executive Officer of CMC Markets PLC, Chief Operating Officer of Ashmore Group PLC and Group Treasurer of Sedgwick Group Plc. James is President of the Institute of Chartered Accountants of Scotland. James is also Chairman and non-executive director of The Edinburgh Investment Trust PLC, senior independent non-executive director of Crest Nicholson Holdings PLC and Chairman of its Remuneration Committee, Deputy Chairman and non-executive director of RBC Europe Limited (which is a Manager of the Global Offer) and non-executive director of Aberdeen Asset Management PLC and Chairman of its Audit Committee.

David Duffy, Chief Executive Officer

David Duffy joined CYBG Group in June 2015 as CEO. David has held a number of senior roles in the international banking industry including, most recently, the position of Chief Executive Officer of Allied Irish Banks. David was also previously Chief Executive Officer of Standard Bank International covering Asia, Latin America, the UK and Europe. He was also previously Head of Global Wholesale Banking Network of ING Group and President and Chief Executive Officer of the ING franchises in the US and Latin America. Prior to that he worked with Goldman Sachs International in various senior positions including Head of Human Resources Europe.

Ian Smith, Chief Financial Officer

Ian Smith has over 20 years' experience in finance, audit and consultancy across the UK banking sector. He joined CYBG Group in November 2014 from Deloitte where he was a partner specialising in financial services for a combined total of 13 years. Ian has also held senior finance roles in HBOS PLC and Lloyds Banking Group plc between 2008 and 2010.

Debbie Crosbie, Chief Operating Officer

Debbie Crosbie has over 20 years of experience in banking and is a fellow of the Chartered Institute of Bankers. Since joining CYBG Group in 1997, Debbie has held a variety of positions in CYBG Group including Head of Technology Governance, Head of Strategic Projects and Head of CYBG Group's Development Centre. She was Chief Information Officer from 2008 to 2011 and, from 2011, Operations and IT Director. She was a non-executive director of the Scottish Court Service and Chairman of its Audit Committee from 2009 to 2014.

David Bennett, Independent Non-Executive Director & Deputy Chairman

David Bennett joined CYBG Group in October 2015 and is the Deputy Chairman of the Company and Clydesdale Bank. He is a member of the Company Board's Audit Committee, Risk Committee, Remuneration Committee and Governance and Nomination Committee. He has over 30 years' experience in banking, having held a range of executive and senior positions in retail banking both in the UK and overseas, including the USA and Australasia. He was Group Finance Director of Alliance & Leicester for six years before becoming its Group Chief Executive in 2007. Following the acquisition of Alliance & Leicester by Santander, he was appointed to the Board of Abbey Plc as an executive director in 2008. He is a non-executive director of Ashmore Group plc, Paypal (Europe) S.a.r.l et Cie, S.C.A., Jerrold Holdings Ltd and is Chair of Homeserve Membership Ltd. Until March 2015 he was a non-executive director of Bank of Ireland UK, and he left easyJet plc after 9 years as a non-executive director in September 2014.

Richard Gregory OBE, Senior Independent Non-Executive Director

Richard Gregory joined CYBG Group in March 2000 and is a member of the Company Board's Audit Committee, Governance and Nomination Committee and is the Chairman of the Company's Risk Committee. He is the senior independent non-executive director. Richard represents Yorkshire Bank within the business community and at customer events as Yorkshire Bank Chair. Richard has more than 20 years board experience across banking, television, digital media, the NHS, innovation and higher education. Chairmanships have included Chesterfield Royal Hospital NHS Foundation Trust, Science City York CLG, Imagesound PLC, Sheffield Hallam University, Yorkshire Innovation, Chairman of the Yorkshire Bank Pension Trust, Chairman of the Yorkshire Initiative International Business Convention Limited and Deputy Chairman of Yorkshire Forward. Directorships have included the Foundation Trust Network, Sheffield University Enterprises Ltd and Business in the Community. His 22 year executive career was in ITV, with Granada, Yorkshire Tyne-Tees, and Yorkshire TV in programming and broadcasting including membership of the ITV Broadcast Board. He retired as managing director broadcasting of YTV in 2002. He is also a non-executive director of Sheffield Children's Hospital NHS Foundation Trust.

David Allvey, Independent Non-Executive Director

David Allvey joined CYBG Group in May 2012 and is a member of the Company Board's Risk Committee and Chairman of the Audit Committee. He has over 35 years of experience as a chartered accountant. Previous roles included Group Finance Director of BAT Industries PLC, Chief Operating Officer for Zurich Financial Services Group and Group Finance Director of Barclays Bank Plc. David was a member of the UK Accounting Standards Board for 11 years and of the Insurance International Accounting Committee. David was the senior independent director for Intertek Group PLC, William Hill Plc and Resolution Plc and was a non-executive director of Thomas Cook PLC. David is the Non-Executive Chairman of Costain Group Plc and non-executive director of Aviva Life Group and other Aviva group companies. David has indicated his intention to retire from the Board. The exact date for his departure is yet to be agreed but is expected to be during the first half of 2016 following the appointment of a successor.

David Browne, Independent Non-Executive Director

David Browne joined CYBG Group in May 2012 and is a member of the Company Board's Audit, Risk and Remuneration Committees. He has over 30 years of experience in debt capital markets, treasury and investor relations. Between 1987 and 2001 David held the positions of Assistant Vice President, Vice President and Managing Director at JP Morgan and from 2001 to 2011 was Head of Group Funding & External Relations at Man Group PLC. He was a founding partner of Pinnacle Partners Limited, a treasury consulting firm. David is a trustee and director of the charity London Youth Rowing.

Adrian Grace, Independent Non-Executive Director

Adrian Grace joined CYBG Group in December 2014 and is Chairman of the Company Board's Remuneration Committee. He started his career with Leeds Permanent Building Society in 1979, before joining Mercantile Credit in 1984. In 2001, he joined Sage Group PLC as Managing Director of the Small Business Division. In 2004 Adrian joined Barclays Insurance as Chief Executive.

In 2007 Adrian joined HBOS as Managing Director of Commercial Banking within the Corporate Division. In 2009, Adrian joined Aegon UK as Group Business Development Director and on 4 April 2011 he became the Chief Executive Officer.

Adrian has been a member of the Global Management Board for AEGON N.V. since February 2012.

Barbara Ridpath, Independent Non-Executive Director

Barbara Ridpath joined CYBG Group in May 2012 and is a member of the Company Board's Risk Committee and Chairperson of the Governance and Nomination Committee. She has over 30 years of experience as an economist and financial analyst. Barbara joined the Federal Reserve Bank of New York as an economist in 1980 and Standard & Poors in 1983. From 1986 Barbara held various positions across the Standard & Poors European network including Executive Managing Director and Head of Ratings Services, Europe. Barbara was Senior Credit Officer at JP Morgan from 1993-1998. Barbara is also a member of the World Economic Forum's Global Advisory Council on the Global Financial System and head of department, St Paul's Institute at St Paul's Cathedral. Barbara has indicated her intention to retire from the Board shortly after completion of the Demerger and Admission. The exact date for her departure has not yet been agreed but is expected to be during the first half of 2016.

Teresa Robson-Capps, Independent Non-Executive Director

Teresa Robson-Capps joined CYBG Group in October 2014 and is a member of the Company Board's Audit Committee. She has over 30 years of experience as a chartered management accountant across a number of industries including telecommunications, financial services and banking. She has a Doctorate in Accounting and Management Control. For four years from 1991 Teresa held the positions of Finance Director, Chief Operating Officer and Acting Managing Director with BT Mobile. From 1995 onwards she held a variety of Executive positions at Sears plc, Eagle Star/Zurich Financial Services, Cable & Wireless, Reality and Accenture. She joined HSBC in 2006 and from 2010 was Deputy Head, Direct Bank & First Direct.

Alex Shapland, Independent Non-Executive Director

Alex Shapland joined CYBG Group in May 2012 and is a member of the Company Board's Risk Committee and Governance and Nomination Committee. He has over 34 years of experience in the financial services industry. From 1997, Alex was Director, Financial Services Regulatory Practice with PricewaterhouseCoopers. From 1999, he became Deputy Chief Executive and Chief Operating Officer of Dealwise Ltd and later Managing Director of Amber Credit Ltd (part of the Skipton Building Society Group). In 2001, Alex returned to PricewaterhouseCoopers and was made a Partner in 2006 in the Financial Services Regulatory Practice. Alex has indicated his intention to retire from the Board shortly after completion of the Demerger and Admission. The exact date for his departure has not yet been agreed but is expected to be during the first half of 2016.

2. SENIOR MANAGEMENT

2.1 The Senior Managers of CYBG Group are as follows:

Name	Age	Position
Derek Treanor[(1)]	49	Chief Credit Officer, Acting Chief Risk Officer
James Peirson	37	General Counsel
Lynn McManus	47	Communications Director
Helen Page	45	Propositions & Marketing Director
Kate Guthrie[(2)]	52	Human Resources Director
Robert Beattie	49	Internal Audit Director
Miles Storey	51	Treasurer
Gavin Opperman	50	Customer Banking Director
Fergus Murphy[(3)]	51	Products Director

(1) Derek Treanor is currently operating as the Acting Chief Risk Officer whilst a search is undertaken for a Chief Risk Officer.

(2) Subject to regulatory approval.

(3) Subject to regulatory approval.

Derek Treanor, Chief Credit Officer (Acting Chief Risk Officer)

Derek Treanor joined CYBG Group in 1995 and since July 2015 is the Acting Chief Risk Officer, whilst a search is undertaken for a Chief Risk Officer. Prior to this role he held the position of Chief Credit Officer with responsibility for all Credit processes and the control of Credit Risk and prior to that the positions of Head of Internal Audit and Head of Financial Governance. He has also held various roles in Risk Management, Retail and Business Banking with extensive experience in audit, financial control and credit risk. Prior to joining CYBG Group, Derek held roles at Deloitte. Derek is a chartered accountant and holds a degree in accountancy.

James Peirson, General Counsel

James Peirson joined NAB in 2005 and was appointed General Counsel for CYBG Group in November 2014. His previous roles at NAB include leading NAB's London Branch legal team and roles supporting NAB and Clydesdale Bank Treasury activities as part of CYBG Group's Capital & Funding legal team in Melbourne and London. Prior to joining NAB, James worked in private legal practice at Hogan Lovells in London.

Lynn McManus, Communications Director

Lynn McManus joined CYBG Group in 1994 and has worked in a variety of positions across Finance and Risk functions, including time in Australia in NAB Group Finance. In 2008 Lynn took up the position of Head of the Chief Executive Office. In November 2012 she was appointed to the role of People & Communications Director becoming responsible for Human Resources, Internal and External Communications and Corporate Support. Lynn has over twenty years' experience in financial services and prior to joining CYBG Group, Lynn held positions with Life Association of Scotland and Britannia Life. A qualified chartered management accountant, Lynn has a degree in Business Economics and is a Fellow of the Chartered Institute of Bankers in Scotland.

Helen Page, Propositions & Marketing Director

Helen Page joined CYBG Group in December 2012 and has over 20 years' experience in marketing, consultancy and product development. Almost 15 years of those have been spent in financial services. Prior to joining CYBG Group, Helen spent eight years at RBS in a number of roles. She became Managing Director for Marketing and Innovation and held responsibility for all UK brands across the Retail, Commercial and Corporate divisions. During this time, Helen was responsible for developing and delivering "Helpful Banking" for NatWest. Helen was also Head of Brand Marketing at Argos, where she re-launched the catalogue company as a retailer and played a key role when the business became 'Retailer of the Year' and 'Advertiser of the year' in 2003. Prior to Argos, Helen held a number of product and marketing roles at Abbey National (now Santander), where she became Head of Marketing. She also has experience in research, consultancy and central government roles. Helen has a degree in economics, development and planning and holds a diploma in Marketing from the Chartered Institute of Marketing.

Kate Guthrie, Human Resources Director

Kate Guthrie agreed to join CYBG Group in January 2016 subject to regulatory approval. Kate has over 30 years of domestic and international HR experience, having worked in six different blue chip organisations in four industrial sectors. Kate joins from Lloyds Banking Group after 11 years of service in a number of senior HR director positions, most recently HR Director, Culture, Capability and Engagement.

Robert Beattie, Internal Audit Director

Robert Beattie joined CYBG Group in June 2012 from Resolution Plc where he was Director of Internal Audit. Robert has over 20 years experience in banking and is a Member of the Chartered Institute of Bankers and a Chartered Member of the Institute of Internal Auditors (CMIIA). Prior roles include Director Risk Services at Ernst & Young LLP, Director of Audit at British Energy Group plc, and senior audit and operational roles at HBOS PLC. Robert is a former Council Member of the CMIIA and past Chair of its Scottish Region.

Miles Storey, Treasurer

Miles Storey joined NAB in 2009 as Managing Director and Regional Treasurer and was appointed Treasurer of CYBG Group in November 2010. His role covers the management of capital, funding, liquidity and interest rate risk for CYBG Group, formulating and executing strategies to manage the risks associated with the UK balance sheets, as well as management of the relationship with regulators, rating agencies and debt investors. Prior to joining CYBG Group, Miles was a money market and derivative trader with 9 years' experience in London and New York at both Chemical/Chase and Barclays Capital. Immediately prior to working at NAB, Miles spent 10 years at Barclays Group Treasury in a role encompassing group balance sheet, liquidity and interest rate risk management responsibilities.

Gavin Opperman, Customer Banking Director

Gavin Opperman agreed to join CYBG Group in December 2015. Gavin has over 30 years of leadership experience in risk, operations and across front line digital, retail, commercial, corporate and investment banking services. Gavin was previously Regional Head of Consumer Banking, Standard Chartered based in China, and prior to that held a number of senior positions across Asia in a career spanning 20 years with Barclays Group.

Fergus Murphy, Products Director

Fergus agreed to join CYBG Group in December 2015 subject to regulatory approval. He has over 20 years' experience in financial services. Prior to joining CYBG Group, Fergus held a number of key roles at Allied Irish Banks from 2011 until 2015 including Director of Products & Capital Markets and, most recently, Director of Corporate and Institutional Banking. From 2008 until 2011 he served as CEO and managing director of EBS Building Society and EBS Limited. Fergus also held a number of senior positions at Rabobank International between 1994 and 2007. He served as CEO of Asia Region from 2003 and was previously a member of their Global Financial Markets (GFM) Management Team, holding roles as Head of Global Treasury and Head of Global Investment Books. Fergus spent his earlier career in the BNP Group working as a derivatives and corporate trader, in the Markets Division.

2.2 Going forward, the Board and the Governance and Nomination Committee will seek to maintain a strong executive and non-executive leadership team with an appropriate balance of skills, experience and diversity and this may result in further changes over time.

3. CORPORATE GOVERNANCE

The Board is committed to the highest standards of corporate governance. As of the date of this Prospectus, the Board complies and, on and following Admission, intends to continue to comply with the requirements of the UK Corporate Governance Code (the "**Code**"). The Company will report to its shareholders on its compliance with the Code in accordance with the Listing Rules.

3.1 *Board Composition*

The Code recommends that at least half the members of the board of directors (excluding the chairman) should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

Currently, the Board comprises twelve members, consisting of the chairman, three executive directors and eight independent non-executive directors. No individual or group of individuals dominates the Board's decision-taking.

The Code also recommends that the Board should appoint one of the independent non-executive directors to be a senior independent director to provide a sounding board for the chairman and to serve as a conduit for the other directors when necessary. Richard Gregory has been appointed to fill this role. The Code states that the senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors have failed to resolve or for which such contact is inappropriate. Richard Gregory will make himself available, as necessary, to perform this role.

Accordingly, on Admission, the Company will comply with the provisions of the Code recommending that at least half of the Board (excluding the chairman) should comprise independent non-executive directors.

The Code further recommends that directors should be subject to annual re-election. The Company also intends to comply with this recommendation.

3.2 **Board Committees**

Consistent with the recommendations of the Code, the Board has established Governance and Nomination, Remuneration, Audit and Risk Committees, each with formally delegated duties and responsibilities with written terms of references. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

(a) *Governance and Nomination Committee*

The Governance and Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make up of the Board. The Governance and Nomination Committee is responsible for evaluating the balance of skills, experience, independence and knowledge on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Governance and Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

The Code provides that a majority of the members of a company's Nomination Committee should be independent non-executive directors.

The Company's Governance and Nomination Committee is composed of four members, namely Richard Gregory, Barbara Ridpath, Alex Shapland and David Bennett who are independent non-executive directors. The chairman of the Governance and Nomination Committee is Barbara Ridpath. The Company therefore considers that it complies with the Code recommendations regarding the composition of a company's Nomination Committee.

The Governance and Nomination Committee will meet at least twice a year and otherwise as required.

(b) *Remuneration Committee*

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on CYBG Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors within CYBG Group, including pension rights and any compensation payments and determining the remuneration arrangements of CYBG Group senior management who sit below Board level.

The Board itself will determine the remuneration of non-executive directors within the limits set out in the Articles. See Part 14: "*Additional Information – Articles of Association – Directors – Remuneration*" for further information. No director or senior manager shall be involved in committee decisions as to his or her own remuneration.

The Code provides that the Remuneration Committee should consist of at least three members who are all independent non-executive directors. In addition, the Chairman of the Company may be a member of, but not chair, the Remuneration Committee if he/she was considered independent on appointment as Chairman.

Following the Demerger, the membership of the Company's Remuneration Committee will comprise four non-executive directors namely Adrian Grace, David Browne, James Pettigrew, the Chairman of the Company and David Bennett. The chairman of the Remuneration Committee is Adrian Grace. The Company therefore considers that following the Demerger it will comply with the Code recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee will meet at least four times a year and otherwise as required.

(c) *Audit Committee*

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the

Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Code recommends that the Audit Committee should comprise of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The membership of the Company's Audit Committee comprises five independent non-executive directors (namely, David Allvey, David Browne, Richard Gregory, Teresa Robson-Capps and David Bennett), all of whom are considered by the Board to have recent and relevant financial experience. The chairman of the Audit Committee is David Allvey. The Company therefore considers that it complies with the Code recommendations regarding the composition of the Audit Committee.

The Audit Committee will meet at least four times a year and otherwise as required and will meet jointly with the Risk Committee at least annually.

(d) *Risk Committee*

The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of CYBG Group and future risk strategy, reviewing and approving various formal reporting requirements, promoting a risk awareness culture within CYBG Group and ensuring that CYBG Group's strategy, principles, policies and resources are aligned to its risk appetite, as well as to regulatory and industry best practices.

The membership of the Company's Risk Committee comprises six independent non-executive directors (namely, Richard Gregory, David Allvey, David Browne, Barbara Ridpath, Alex Shapland and David Bennett). The chairman of the Risk Committee is Richard Gregory.

The Risk Committee will meet at least four times a year and hold a joint meeting with the Audit Committee at least annually.

4. **SHARE DEALING**

Upon Admission, the Company will adopt a code of securities dealings in relation to the Shares which is based on, and is at least as rigorous as, the "Model Code" as published in the Listing Rules. The code adopted will apply to the Directors and other relevant employees of CYBG Group.

PART 4
SELECTED FINANCIAL AND OTHER INFORMATION

The selected financial and other information relating to CYBG Group set out below has been extracted or derived, without material adjustment, from the Historical Financial Information and CYBG Group's accounting records and financial reporting systems. Investors should read the whole of this Prospectus before making an investment decision and not rely solely on the summarised information in this Part 4.

1. Consolidated Income Statement Data

The following table sets out consolidated income statement data for CYBG Group that has been extracted from the Historical Financial Information.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Interest income and similar income	1,110	1,135	1,209	1,461
Interest expense and similar charges	(323)	(350)	(441)	(584)
Net interest income	**787**	**785**	**768**	**877**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	238	205	225	399
Non-interest income	**240**	**197**	**190**	**255**
Total operating income	**1,027**	**982**	**958**	**1,132**
Personnel expenses	(266)	(287)	(302)	(329)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(868)	(777)	(485)	(645)
Restructuring expenses	(17)	—	—	(149)
Total operating and administrative expenses before impairment losses	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses	**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Analysed as:				
Profit/(loss) before tax, Net gain on capital restructuring and debt buy-back, Pension benefits, PPI redress expense, PPI complaint handling fine, Restructuring expenses, IRHP/FRTBL redress expense, Other conduct expenses, Separation costs and Impairment of intangible assets and goodwill	159	222	131	(464)
Net gain on capital restructuring and debt buy back	61	—	—	—
Pension scheme reforms benefit	—	—	—	130
Pension increase exchange gain	18	—	—	—
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	—	—	—
IRHP/FRTBL redress expense	(75)	—	—	—
Other conduct expenses	—	(13)	(50)	(23)
Restructuring expenses	(17)	—	—	(149)
Separation costs	(10)	—	—	—
Impairment of intangible assets and goodwill	(10)	(23)	—	(177)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	—	8	—	9
	(225)	**(190)**	**(44)**	**(647)**

2. **Consolidated Income Statement Data – Management Basis**

The following table sets out consolidated income statement data for CYBG Group that, unless otherwise specified, has been extracted or derived, without material adjustment, from the Historical Financial Information. The income statement data for the year ended 30 September 2012 includes adjustments relating to the disposed CRE portfolio that are unaudited. The consolidated income statement data is presented on the Management Basis, which the Directors believe provides useful supplemental information to assist in evaluating the underlying operating performance of CYBG Group's business in the years ended 30 September 2015, 2014, 2013 and 2012 (collectively, the "**period under review**") and to facilitate more meaningful period-to-period comparisons. The Management Basis information includes adjustments to present items that the Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the Historical Financial Information to the Management Basis information presented in paragraph 5 of this Part 4. These adjustments and CYBG Group's underlying results of operations on the Management Basis are both discussed in Part 5: "*Operating and Financial Review*". See "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information – Management Basis*" and the Historical Financial Information for further information.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
				(unaudited)
			£m	
Interest income and similar income	1,110	1,135	1,209	1,300
Interest expense and similar charges	(323)	(350)	(441)	(494)
Net interest income	**787**	**785**	**768**	**806**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	175	205	225	264
Non-interest income	**177**	**197**	**190**	**120**
Total operating income	**964**	**982**	**958**	**926**
Personnel expenses	(282)	(287)	(302)	(315)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(362)	(321)	(305)	(325)
Total operating and administrative expenses before impairment losses	**(727)**	**(686)**	**(683)**	**(715)**
Operating profit before impairment losses	**237**	**296**	**275**	**211**
Impairment losses on credit exposures	(78)	(74)	(144)	(173)
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**
Pension scheme reforms benefit	—	—	—	130
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	—	—	—
IRHP/FRTBL redress expense	(75)	—	—	—
Other conduct	—	(13)	(50)	(23)
Impairment of intangible assets	(10)	(23)	—	(36)
Impairment losses on goodwill	—	—	—	(141)
Disposed legacy CRE portfolio impact	—	—	—	(502)
Restructuring expenses	(17)	—	—	(149)
Separation costs	(10)	—	—	—
Net gain on capital restructuring and debt buy back	61	—	—	—
Pension increase exchange gain	18	—	—	—
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	—	8	—	9
	(225)	**(190)**	**(44)**	**(647)**

3. **Consolidated Balance Sheet Data**

The following table sets out consolidated balance sheet data for CYBG Group that has been extracted or derived, without material adjustment, from the Historical Financial Information. The legacy CRE portfolio was reported in assets held for sale as at 30 September 2012. As a result, there is no Management Basis of presentation applicable to the consolidated balance sheet data. For information on CYBG Group's average balances of interest-earning assets and interest-bearing liabilities, see paragraph 6 of this Part 4. See the Historical Financial Information for further information.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Assets				
Customer loans[(1)]	28,783	27,696	26,424	27,575
Cash and balances with central banks	6,431	5,986	6,720	7,927
Investments – available for sale	1,462	1,168	975	1,041
Due from related entities	786	1,487	1,390	1,256
Defined benefit pension assets	52	49	—	—
Accrued interest receivable on customer loans	80	92	81	101
Assets held for sale[(2)]	—	—	—	5,225
Other assets	1,111	914	1,158	1,257
Total assets	**38,705**	**37,392**	**36,748**	**44,382**
Liabilities				
Customer deposits[(3)]	26,349	23,989	24,266	26,528
Bonds and notes	3,766	3,453	3,085	3,187
Notes in circulation	1,791	1,831	1,709	1,567
Due to related entities	998	2,677	3,036	7,716
Provisions	1,006	952	315	292
Accrued interest payable on customer deposits	125	175	212	236
Retirement benefit obligations	4	4	202	306
Other liabilities	1,223	1,773	1,474	1,931
Total liabilities	**35,262**	**34,854**	**34,299**	**41,763**
Total equity	3,443	2,538	2,449	2,619
Total liabilities and equity	**38,705**	**37,392**	**36,748**	**44,382**

(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable) as presented in the Historical Financial Information.

(2) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions. CYBG Group transferred assets held for sale to NAB in October 2012.

(3) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable) as presented in the Historical Financial Information.

4. **Key Performance Indicators and Other Financial Data**

4.1 ***Key performance indicators***

Management uses a variety of key performance indicators to aid in assessing CYBG Group's financial performance. The Directors believe that each of these measures provides useful supplemental information with respect to the performance of CYBG Group's business and operations. The following table sets out key performance indicators for CYBG Group as at and for each of the years ended 30 September 2015, 2014, 2013 and 2012.

The key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides CYBG Group with certain discretion in making its calculations. Because of the discretion that CYBG Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these measures with similar measures used by other banks. See "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information*" for further information. Certain of the measures presented in this paragraph 4.1 are based on

Management Basis information. For additional details relating to the Management Basis information, see "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information – Management Basis*".

	As at and for the year ended 30 September			
	2015	2014	2013	2012
	(%, unless otherwise specified)			
Profitability ratios:				
Net interest margin(1)	2.20	2.30	2.18	2.07
Management Basis net interest margin(2)	2.20	2.30	2.18	2.20
ROTE(3)	(10.3)	(9.4)	(2.1)	(26.1)
Management Basis ROTE(4)	5.1	7.7	4.4	0.5
Cost-to-income ratio(5)	120	116	90	106
Management Basis cost-to-income ratio(6)	75	70	71	77
Asset quality ratios:				
Impairment charge to average customer loans(7)	0.21	0.30	0.60	0.74
90+ DPD to customer loans(8)	0.50	0.66	0.84	0.84
Gross impaired assets to customer loans(9)	0.91	1.35	1.61	1.64
90+ DPD plus gross impaired assets to customer loans(10)	1.41	2.01	2.45	2.48
Specific provision to gross impaired assets(11)	39.2	37.3	36.9	30.3
Total provision to customer loans(12)	0.93	1.15	1.39	1.36
Indexed LTV of mortgage portfolio(13)	55.3	58.8	63.5	66.6
Regulatory capital ratios:				
CET1 ratio(14)	13.2	9.4	9.6	7.7
Tier 1 ratio(15)	15.7	11.0	11.1	8.9
Total capital ratio(16)	18.9	17.7	17.5	14.4
Leverage Ratio(17)	7.1	5.2	5.1	4.6
Liquidity ratios:				
LDR(18)	109	115	109	104
LCR(19)(21)	136	110	119	N/A
NSFR(20)(21)	120	108	106	N/A

(1) Net interest margin is defined as net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(2) Management Basis net interest margin is defined as Management Basis net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(3) ROTE is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and distributions on Additional Tier 1 Securities as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 Securities and preference shares) for a given period. Average tangible equity has been calculated using tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.

(4) Management Basis ROTE is defined as underlying profit after tax less preference share dividends, non-controlling interest distributions and distributions on Additional Tier 1 Securities as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 Securities and preference shares) for a given period. Underlying profit after tax is defined as underlying profit before tax less tax charge (or plus tax credit, as the case may be). Underlying profit after tax was equal to £28 million, £94 million, £171 million and £139 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The Management Basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period (30 September 2015: 20.5 per cent.; 30 September 2014: 22.0 per cent.; 30 September 2013: 23.5 per cent.; 30 September 2012: 25.0 per cent.) to the taxable items adjusted on the Management Basis. The taxable items comprise PPI redress expense, IRHP and FRTBL redress expense, other conduct, disposed legacy CRE portfolio impact, part of separation costs and part of restructuring expenses. In computing taxable profits, the gross gain on the capital restructure was non-taxable and distributions on Additional Tier 1 Securities were taken as a deduction for tax purposes although recorded as a dividend payable for accounting purposes. Distributions on Additional Tier 1 Securities are expected to be deductible based on the prevailing mainstream rate of corporation tax and, commencing 1 January 2016, the banking surcharge. The pension scheme reform benefit and the pension increase exchange gain were also non-taxable. CYBG Group had an unrecognised deferred tax asset of £16 million (representing trading losses with a gross value of £80 million) at 30 September 2015, reflecting the uncertainty of projections towards the end of the period over which such differences might be expected to reverse. Average tangible equity has been calculated using the tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.

(5) Cost-to-income ratio is defined as total operating expenses as a percentage of total operating income for a given period.

(6) Management Basis cost-to-income ratio is defined as Management Basis total operating expenses as a percentage of Management Basis total operating income for a given period.

(7) Impairment charge to average customer loans is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. Impairment charge is defined as impairment losses on credit exposures plus credit risk adjustments on fair value loans. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(8) 90+ DPD to customer loans is defined as customer loans that are more than 90 days overdue as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(9) Gross impaired assets to customer loans is defined as gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012. Unsecured personal lending is written-off once it becomes 180 days past due and is never designated as impaired.

(10) 90+ DPD plus gross impaired assets to customer loans is defined as customer loans that are more than 90 days overdue plus gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans, £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(11) Specific provision to gross impaired assets is defined as the specific impairment provision on credit exposures as a percentage of gross impaired assets at a given date. This ratio excludes £309 million of specific provisions and £842 million of gross impaired loans in respect of the disposed CRE portfolio at 30 September 2012.

(12) Total provision to customer loans is defined as total impairment provision on credit exposures as a percentage of total customer loans at a given date. This ratio excludes £463 million of provisions and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

(13) Indexed LTV of mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the Halifax house price index at a given date.

(14) CET1 ratio is defined as CET1 capital divided by risk-weighted assets at a given date. The CET1 ratios as at 30 September 2012 and 2013 were calculated under Basel II. The CET1 ratio as at 30 September 2014 was calculated under CRD IV regulations. As at 30 September 2015, the CET1 ratio was calculated in accordance with the revised CRD IV regulations applicable from 1 January 2015.

(15) Tier 1 ratio is defined as Tier 1 capital resources divided by RWAs at a given date.

(16) Total capital ratio is defined as total capital resources divided by RWAs at a given date. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing AT1 notes and Tier 2 Notes, with New AT1 Notes and New Tier 2 Notes to be issued by CYBG on the Demerger Date and initially held by NAB. For further information, see Part 14: "*Additional Information – Funding Programmes*".

(17) Leverage Ratio is calculated in accordance with the relevant EU legislation and applicable guidance at the balance sheet date.

(18) LDR is defined as customer loans as a percentage of customer deposits at a given date.

(19) CYBG Group monitors the LCR based on its own interpretations of current guidance available for CRD IV LCR reporting. Therefore, the reported LCR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.

(20) CYBG Group monitors the NSFR based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.

(21) CYBG Group reports this ratio for all material operating entities within CYBG Group, excluding consolidated securitisation entities. This ratio reflects the regulatory view with respect to oversight of CYBG Group's liquidity position and resources.

4.2 ***Other financial data***

The following table sets out other financial data for CYBG Group as at and for each of the years ended 30 September 2015, 2014, 2013 and 2012. The other financial data presented below includes measures that are not defined under IFRS. See "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information*" for further information. Certain of the measures presented in this paragraph 4.2 are based on Management Basis information. For additional details relating to the Management Basis information, see "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information – Management Basis*".

	As at and for the year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(%, unless otherwise specified)			
Profitability ratios:				
Return on assets[(1)]	(0.58)	(0.51)	(0.12)	(1.43)
Management Basis return on assets[(2)(3)]	0.36	0.46	0.25	0.06
Return on RWAs[(4)]	(1.2)	(1.0)	(0.2)	(2.8)
Management Basis return on RWAs[(3)(5)]	0.8	0.9	0.5	0.1
Return on equity[(6)]	(9.3)	(8.5)	(1.9)	(24.1)
Management Basis return on equity[(3)(7)]	4.7	7.0	4.0	0.5
Customer lending yield[(8)]	3.77	3.97	4.06	4.13
Asset quality:				
Net write-offs to customer loans ratio[(9)]	0.36	0.44	0.62	0.54
Impairment charge to mortgages ratio[(10)]	0.09	0.03	0.09	0.07
Impairment charge to business lending ratio[(11)]	0.37	0.62	1.16	1.41
Impairment charge to unsecured personal lending ratio[(12)]	1.18	1.70	2.18	2.14
Impaired loans to gross loans ratio – mortgages[(13)]	0.32	0.35	0.47	0.46
Impaired loans to gross loans ratio – business lending[(14)]	2.79	3.90	3.89	3.50
Customer funding gap (£m)[(15)]	2,434	3,707	2,158	1,047

(1) Return on assets is defined as profit/(loss) after tax as a percentage of average assets for a given period. Average assets have been calculated using the asset spot balances at each of the month ends in the applicable period.

(2) Management Basis return on assets is defined as underlying profit after tax (as defined in footnote 3) as a percentage of average assets for a given period. Average assets have been calculated using the asset spot balances at each of the month ends in the applicable period.

(3) Underlying profit after tax is defined as underlying profit before tax less tax charge (or plus tax credit, as the case may be). Underlying profit after tax was equal to £28 million, £94 million, £171 million and £139 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The Management Basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period (30 September 2015: 20.5 per cent.; 30 September 2014: 22.0 per cent.; 30 September 2013: 23.5 per cent.; 30 September 2012: 25.0 per cent.) to the taxable items adjusted on the Management Basis. The taxable items comprise PPI redress expense, IRHP and FRTBL redress expense, other conduct, disposed legacy CRE portfolio impact, part of separation costs and part of restructuring expenses. In computing taxable profits, the gross gain on the capital restructure was non-taxable and distributions on Additional Tier 1 Securities were taken as a deduction for tax purposes although recorded as a dividend payable for accounting purposes. Distributions on Additional Tier 1 Securities are expected to be deductible based on the prevailing mainstream rate of corporation tax and, commencing 1 January 2016, the banking surcharge. The pension scheme reform benefit and the pension increase exchange gain were also non-taxable. CYBG Group had an unrecognised deferred tax asset of £16 million (representing trading losses with a gross value of £80 million) at 30 September 2015, reflecting the uncertainty of projections towards the end of the period over which such differences might be expected to reverse.

(4) Return on RWAs is defined as profit/(loss) after tax as a percentage of average RWAs for a given period. Average RWAs have been calculated using the risk weighted asset spot balances at each of the month ends in the applicable period.

(5) Management Basis return on RWAs is defined as underlying profit after tax (as defined in footnote 3) as a percentage of average RWAs for a given period. This ratio excludes £4,670 million of average RWAs in respect of the disposed CRE portfolio at 30 September 2012. Average RWAs have been calculated using the risk-weighted asset spot balances at each of the month ends in the applicable period.

(6) Return on equity is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and distributions on Additional Tier 1 Securities as a percentage of average equity (total equity excluding non-controlling interest, Additional Tier 1 Securities and preference shares) for a given period. Average equity has been calculated using the equity spot balances at each of the month ends of the applicable period.

(7) Management Basis return on equity is defined as underlying profit after tax (as defined in footnote 3) less preference share dividends, non-controlling interest distributions and distributions on Additional Tier 1 Securities as a percentage of average equity (total equity excluding non-controlling interest, Additional Tier 1 Securities and preference shares) for a given period. Average equity has been calculated using the equity spot balances at each of the month ends of the applicable period.

[8] Customer lending yield is defined as gross interest income on customer loans divided by average balances of customer loans for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average balances of customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

[9] Net write-offs to customer loans ratio is defined as amounts written-off on credit exposures, including loans held at fair value (net of recoveries of amounts written-off in previous periods), as a percentage of average customer loans at a given date. This ratio excludes £221 million of amounts written-off and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.

[10] Impairment charge to mortgages ratio is defined as impairment charges on mortgages for a given period as a percentage of average mortgages for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average mortgages were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

[11] Impairment charge to business lending ratio is defined as impairment charges on business loans plus impairment charges on other financial assets at fair value for a given period as a percentage of average business loans plus other financial assets at fair value for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of total business lending in respect of the disposed CRE portfolio for the year ended and as at 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average business loans plus other financial assets at fair value were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

[12] Impairment charge to unsecured personal lending ratio is defined as impairment charges on unsecured personal lending for a given period as a percentage of average unsecured personal lending for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average unsecured personal lending was calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

[13] Impaired loans to gross loans ratio-mortgages is defined as impaired mortgages as a percentage of total gross mortgages at a given date.

[14] Impaired loans to gross loans ratio-business lending is defined as impaired business loans and impaired other financial assets at fair value as a percentage of total business loans plus other financial assets at fair value at a given date. This ratio excludes £842 million of impaired loans and £5,652 million of business loans in respect of the disposed CRE portfolio at 30 September 2012.

[15] Customer funding gap is defined as customer loans less customer deposits at a given date.

5. Consolidated Income Statement Data – Reconciliation of the Historical Financial Information to the Management Basis

The following tables set out a reconciliation of the Historical Financial Information of CYBG Group to the Management Basis information for the years ended 30 September 2015, 2014, 2013 and 2012. Unless otherwise specified, the information in the tables below has been extracted or derived, without material adjustment, from the Historical Financial Information. See "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information – Management Basis*" for further information.

	Year ended 30 September 2015			Year ended 30 September 2014		
	HFI Income Statement	Presentation Differences	Management Basis	HFI Income Statement	Presentation Differences	Management Basis
			£m			
Interest income and similar income	1,110	—	1,110	1,135	—	1,135
Interest expense and similar charges	(323)	—	(323)	(350)	—	(350)
Net interest income	**787**	**—**	**787**	**785**	**—**	**785**
Gains less losses on financial instruments at fair value	2	—	2	(8)	—	(8)
Other operating income[1]	238	(63)	175	205	—	205
Non-interest income	**240**	**(63)**	**177**	**197**	**—**	**197**
Total operating income	1,027	(63)	964	982	—	982
Personnel expenses[2][9]	(266)	(16)	(282)	(287)	—	(287)
Depreciation expense	(83)	—	(83)	(78)	—	(78)
Other operating and administrative expenses[1][3][4][5][6][7]	(868)	506	(362)	(777)	456	(321)
Restructuring expenses[8]	(17)	17	—	—	—	—
Total operating and administrative expenses before impairment losses	**(1,234)**	**507**	**(727)**	**(1,142)**	**456**	**(686)**
Operating profit/(loss) before impairment losses	**(207)**	**444**	**237**	**(160)**	**456**	**296**
Impairment losses on credit exposures	(78)	—	(78)	(74)	—	(74)
Underlying profit on ordinary activities before tax	**(285)**	**444**	**159**	**(234)**	**456**	**222**
PPI redress expense[3]	—	(390)	(390)	—	(420)	(420)
PPI complaint handling fine[4]	—	(21)	(21)	—	—	—
IRHP/FRTBL redress expense[5]	—	(75)	(75)	—	—	—
Other conduct[6]	—	—	—	—	(13)	(13)
Impairment of intangible assets[7]	—	(10)	(10)	—	(23)	(23)
Restructuring expenses[8]	—	(17)	(17)	—	—	—
Separation costs[9]	—	(10)	(10)	—	—	—
Net gain on capital restructuring and debt buy-back[1]	—	61	61	—	—	—
Pension increase exchange gain[2]	—	18	18	—	—	—
Loss on ordinary activities before tax	**(285)**	**—**	**(285)**	**(234)**	**—**	**(234)**
Tax credit	60	—	60	44	—	44
Loss for the year	**(225)**	**—**	**(225)**	**(190)**	**—**	**(190)**
Attributable to:						
Equity holders of the parent	(225)	—	(225)	(198)	—	(198)
Non-controlling interest	—	—	—	8	—	8
	(225)	**—**	**(225)**	**(190)**	**—**	**(190)**

(1) During the year ended 30 September 2015, other operating income included a gain of £61 million relating to the December 2014 capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. The gain was a result of the repurchase of £650 million of subordinated liabilities at fair value. The

subordinated debt was replaced with an issue of £350 million of ordinary shares to NAB related parties and Additional Tier 1 Securities of £150 million to NAB. Other operating and administrative expenses included costs incurred in connection with the capital restructuring of £2 million. A further gain of £2 million was made in the year ended 30 September 2015 on the early redemption of medium-term funding with NAB. There is no equivalent amount for the year ended 30 September 2014.

(2) During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member may be entitled to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. This policy change resulted in a credit to the income statement of £18 million within personnel expenses, resulting in a reduction in the defined benefit pension expense to £11 million. There is no equivalent amount for the year ended 30 September 2014.

(3) PPI redress expense provision costs of £390 million and £420 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(4) On 14 April 2015, the FCA issued a fine of £21 million against CYBG Group for failings in CYBG Group's PPI complaint handling processes between May 2011 and July 2013. As a result, CYBG Group recorded other operating expenses of £21 million relating to a PPI complaint handling fine in the year ended 30 September 2015. There is no equivalent amount for the year ended 30 September 2014.

(5) CYBG Group recorded a charge of £75 million for IRHP and FRTBL redress expenses for the year ended 30 September 2015 within other operating and administrative expenses. These expenses have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2014.

(6) Other conduct charges of £13 million for the year ended 30 September 2014 were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2015.

(7) Impairment charges on intangible assets of £10 million and £23 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs and have been excluded from the results on the Management Basis.

(8) CYBG Group recorded a charge of £17 million in restructuring costs for the year ended 30 September 2015, principally for headcount reductions across the front and back offices. There is no equivalent amount for the year ended 30 September 2014.

(9) Separation costs of £10 million for the year ended 30 September 2015 were recorded within personnel expenses (£2 million) and within other operating and administrative expenses (£8 million). These costs were incurred for pre day one separation activities, and, due to their non-recurring nature, have been excluded from the results on the Management Basis.

	Year ended 30 September 2013			**Year ended 30 September 2012**			
	HFI Income Statement	**Presentation Differences**	**Management Basis**	**HFI Income Statement**	**Presentation Differences**	**Presentation Differences relating to the disposed CRE portfolio[1]**	**Management Basis**
						(unaudited)	
		£m			*£m*		
Interest income and similar income	1,209	—	1,209	1,461	—	(161)	1,300
Interest expense and similar charges	(441)	—	(441)	(584)	—	90	(494)
Net interest income	**768**	**—**	**768**	**877**	**—**	**(71)**	**806**
Gains less losses on financial instruments at fair value	(35)	—	(35)	(144)	—	—	(144)
Other operating income[2]	225	—	225	399	(130)	(5)	264
Non-interest income	**190**	**—**	**190**	**255**	**(130)**	**(5)**	**120**
Total operating income	**958**	**—**	**958**	**1,132**	**(130)**	**(76)**	**926**
Personnel expenses	(302)	—	(302)	(329)	—	14	(315)
Depreciation expense	(76)	—	(76)	(75)	—	—	(75)
Other operating and administrative expenses[3][4][5][6]	(485)	180	(305)	(645)	320	—	(325)

	Year ended 30 September 2013			Year ended 30 September 2012			
	HFI Income Statement	Presentation Differences	Management Basis	HFI Income Statement	Presentation Differences	Presentation Differences relating to the disposed CRE portfolio[1]	Management Basis
						(unaudited)	
		£m			*£m*		
Restructuring expenses	—	—	—	(149)	149	—	—
Total operating and administrative expenses before impairment losses	**(863)**	**180**	**(683)**	**(1,198)**	**469**	**14**	**(715)**
Operating profit/ (loss) before impairment losses	**95**	**180**	**275**	**(66)**	**339**	**(62)**	**211**
Impairment losses on credit exposures	(144)	—	(144)	(737)	—	564	(173)
Underlying profit on ordinary activities before tax	**(49)**	**180**	**131**	**(803)**	**339**	**502**	**38**
Pension scheme reforms benefit[2]	—	—	—	—	130	—	130
PPI redress expense[3]	—	(130)	(130)	—	(120)	—	(120)
Other conduct[4]	—	(50)	(50)	—	(23)	—	(23)
Impairment of intangible assets[5]	—	—	—	—	(36)	—	(36)
Impairment losses on goodwill[6]	—	—	—	—	(141)	—	(141)
Disposed legacy CRE portfolio impact[1]	—	—	—	—	—	(502)	(502)
Restructuring expenses[7]	—	—	—	—	(149)	—	(149)
Loss on ordinary activities before tax	**(49)**	**—**	**(49)**	**(803)**	**—**	**—**	**(803)**
Tax credit	5	—	5	156	—	—	156
Loss for the year	**(44)**	**—**	**(44)**	**(647)**	**—**	**—**	**(647)**
Attributable to:							
Equity holders of the parent	(44)	—	(44)	(656)	—	—	(656)
Non-controlling interest	—	—	—	9	—	—	9
	(44)	**—**	**(44)**	**(647)**	**—**	**—**	**(647)**

(1) These amounts are unaudited. The £502 million amount disclosed above represents the impact of the disposed CRE portfolio on the results for the year ended 30 September 2012. The legacy CRE portfolio was reclassified as held for sale at 30 September 2012 and the £5,225 million of predominantly CRE assets and associated loans net of provisions was transferred to NAB in October 2012. The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio during the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the

disposed legacy CRE portfolio of £502 million. The interest expense of £90 million has been calculated by applying the contractual rates that were in place for the majority of the funding to all of the funding arrangements supporting the CRE portfolio prior to the disposal. There is no equivalent amount for the year ended 30 September 2013.

(2) In the year ended 30 September 2012, CYBG Group received a one-off pension contribution of £130 million from NAB in respect of the defined benefit pension scheme. This amount was recognised as a one-off gain in other operating income, but has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

(3) PPI redress expense provision costs of £130 million and £120 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(4) Other conduct charges of £50 million and £23 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

(5) Impairment charges on intangible assets of £36 million for the year ended 30 September 2012 were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs, predominantly with respect to business banking systems in 2012 and have been excluded from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

(6) A goodwill impairment charge of £141 million was recorded within other operating and administrative expenses for the year ended 30 September 2012. It represents a reduction in the value of CYBG Group's investment in Clydesdale Bank, reflecting the results, including impairment losses, on the legacy CRE portfolio and other restructuring costs that the business incurred in that period. This cost has been removed from the results on the Management Basis due to its non-recurring nature. There is no equivalent amount for the year ended 30 September 2013.

(7) CYBG Group recorded a charge of £149 million for restructuring for the year ended 30 September 2012, principally for headcount reductions and the closure or relocation of certain business and private banking centres and back office locations, as part of the 2012 strategic review. This charge has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

6. Average Balance Sheet and Interest Rate Data

The following tables set out the average balances of interest-earning assets and interest-bearing liabilities, interest income earned and interest expense incurred by CYBG Group and average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for the years indicated. The financial information below has been extracted or derived from the Historical Financial Information for the years ended 30 September 2015, 2014, 2013 and 2012 and CYBG Group's financial reporting systems. For further information, see "*Important Information – Presentation of certain financial and other information – Average balance sheet and interest rate data*".

	Year ended 30 September 2015			Year ended 30 September 2014		
	Average Balance	**Interest Income/ Expense**	**Average yield/rate**	**Average Balance**	**Interest Income/ Expense**	**Average yield/rate**
			(£m, except %)			
Interest-earning assets:						
Mortgages	19,576	647	3.31%	17,155	584	3.40%
Business lending(1)	7,339	278	3.78%	8,337	324	3.89%
Unsecured personal lending	1,274	138	10.83%	1,295	155	11.99%
Liquid assets	6,781	36	0.53%	6,180	33	0.54%
Due from related entities	810	3	0.40%	1,102	4	0.33%
Swap income/other	—	8	n/a	—	35	n/a
Total average interest-earning assets	**35,780**	**1,110**	**3.10%**	**34,069**	**1,135**	**3.33%**
Interest-bearing liabilities:						
Current accounts	10,416	12	0.11%	9,741	12	0.12%
Savings accounts	7,171	54	0.75%	5,911	35	0.59%
Term deposits	5,500	129	2.35%	5,975	165	2.77%
Other wholesale deposits	96	1	0.85%	171	1	0.69%
Bonds and notes	3,868	82	2.11%	3,280	81	2.47%
Due to related entities	1,956	40	2.07%	2,961	50	1.69%
Liquid liabilities	978	5	0.54%	808	6	0.72%
Total average interest-bearing liabilities	**29,985**	**323**	**1.08%**	**28,847**	**350**	**1.21%**
Total average equity attributable to equity holders of the parent	**3,029**			**2,324**		
Net interest margin			**2.20%**			**2.30%**

(1) Average business lending balances include other financial assets at fair value.

	Year ended 30 September 2013			Year ended 30 September 2012		
	Average balance	Interest Income/ Expense	Average yield/rate	Average balance	Interest Income/ Expense[3]	Average yield/rate
			(£m, except %)			
Interest-earning assets:						
Mortgages	15,698	545	3.47%	14,617	493	3.37%
Business lending[1]	9,983	385	3.86%	11,779	479	4.06%
Unsecured personal lending	1,282	164	12.79%	1,352	174	12.84%
Liquid assets	7,220	40	0.55%	6,488	40	0.62%
Due from related entities	1,072	5	0.43%	2,475	14	0.55%
Swap income/other	—	70	n/a	—	100	n/a
Total average interest-earning assets	**35,255**	**1,209**	**3.43%**	**36,711**	**1,300**	**3.54%**
Interest-bearing liabilities:						
Current accounts	9,194	11	0.12%	8,776	11	0.12%
Savings accounts	5,458	31	0.57%	5,546	30	0.54%
Term deposits	8,284	261	3.15%	9,497	301	3.17%
Other wholesale deposits	565	4	0.70%	814	8	0.95%
Bonds and notes	3,098	75	2.43%	2,791	52	1.87%
Due to related entities[2]	2,919	57	1.94%	3,777	86	2.27%
Liquid liabilities	535	2	0.44%	837	6	0.75%
Total average interest-bearing liabilities	**30,053**	**441**	**1.47%**	**32,038**	**494**	**1.54%**
Total average equity attributable to equity holders of the parent	**2,345**			**2,743**		
Net interest margin[3]			**2.18%**			**2.20%**

(1) Average business lending balances include other financial assets at fair value. Average business lending assets for the year ended 30 September 2012 have been adjusted to remove an average balance of £5,652 million of predominantly CRE assets and associated loans excluding provisions, which were transferred to NAB on 5 October 2012.

(2) Average balances due to related entities for the year ended 30 September 2012 excludes £5,084 million, which was repaid to NAB in October 2012.

(3) Net interest income and net interest margin for the year ended 30 September 2012 is presented on the Management Basis and excludes the impact of the disposed CRE portfolio on the results for the year ended 30 September 2012. Management Basis net interest margin is defined as Management Basis net interest income divided by average interest-earning assets for a given period.

The following tables set out CYBG Group's average balances of interest-earning assets and interest-bearing liabilities, interest income earned and interest expense incurred by CYBG Group and average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities for mortgage lending, business lending and unsecured personal lending for the years indicated.

	Year ended 30 September 2015			Year ended 30 September 2014		
	Average Balance	Interest Income	Average yield/rate	Average Balance	Interest Income	Average yield/rate
			(£m, except %)			
Interest-earning assets:						
Mortgages lending:						
Front book pricing[1]			3.21%			3.53%
Variable	5,559	202	3.63%	6,734	250	3.71%
Tracker	2,808	40	1.42%	3,002	43	1.42%
Fixed rate	11,207	405	3.61%	7,422	286	3.85%
Deferred fee income	2	—	n/a	(3)	5	n/a
Total mortgage lending	**19,576**	**647**	**3.31%**	**17,155**	**584**	**3.40%**
Business lending:						
New term lending[2]			3.58%			3.80%
Overdrafts	1,212	46	3.79%	1,397	56	3.99%
Term lending	5,413	162	3.00%	6,183	185	3.00%

	Year ended 30 September 2015			Year ended 30 September 2014		
	Average Balance	Interest Income	Average yield/rate	Average Balance	Interest Income	Average yield/rate
			(£m, except %)			
Working capital solutions	741	30	4.04%	786	33	4.22%
Deferred fee income	(27)	40	n/a	(29)	50	n/a
Total business lending	**7,339**	**278**	**3.78%**	**8,337**	**324**	**3.89%**
Unsecured personal lending:						
Personal loans	800	73	9.16%	793	82	10.40%
Fixed rate	689	70	10.17%	670	78	11.74%
Variable rate	111	3	2.97%	123	4	3.17%
Credit cards	370	52	14.05%	379	58	15.19%
Overdrafts	104	13	12.19%	123	15	12.36%
Total unsecured personal lending	**1,274**	**138**	**10.83%**	**1,295**	**155**	**11.99%**

(1) Front book pricing is defined as the weighted average of gross interest rates on loans originated for a given period.
(2) New term lending is defined as the weighted average of gross interest rates on business term loans originated for a given period.

	Year ended 30 September 2013			Year ended 30 September 2012		
	Average Balance	Interest Income	Average yield/rate	Average Balance	Interest Income	Average yield/rate
			(£m, except %)			
Interest-earning assets:						
Mortgages lending:						
Front book pricing[1]			3.59%			3.63%
Variable	8,181	297	3.64%	7,699	264	3.43%
Tracker	3,252	47	1.44%	3,452	50	1.44%
Fixed rate	4,274	187	4.38%	3,481	171	4.92%
Deferred fee income	(9)	14	n/a	(15)	8	n/a
Total mortgage lending	**15,698**	**545**	**3.47%**	**14,617**	**493**	**3.37%**
Business lending:						
New term lending[2]			3.79%			4.17%
Overdrafts	1,651	66	4.00%	1,822	75	4.12%
Term lending	7,383	216	2.93%	8,726	266	3.04%
Working capital solutions	989	44	4.40%	1,282	59	4.60%
Deferred fee income	(40)	59	n/a	(51)	79	n/a
Total business lending	**9,983**	**385**	**3.86%**	**11,779**	**479**	**4.06%**
Unsecured personal lending:						
Personal loans	714	83	11.60%	713	83	11.60%
Fixed rate	595	78	13.12%	564	77	13.67%
Variable rate	119	5	3.96%	149	6	3.71%
Credit cards	413	63	15.30%	454	71	15.55%
Overdrafts	155	18	11.64%	185	20	10.95%
Total unsecured personal lending	**1,282**	**164**	**12.79%**	**1,352**	**174**	**12.84%**

(1) Front book pricing is defined as the weighted average of gross interest rates on loans originated for a given period.
(2) New term lending is defined as the weighted average of gross interest rates on business term loans originated for a given period.

	Year ended 30 September 2015			Year ended 30 September 2014		
	Average balance	Interest Expense	Average yield/rate	Average balance	Interest Expense	Average yield/rate
			(£m, except %)			
Customer deposits:						
Business deposits:						
Current accounts	5,803	9	0.16%	5,497	9	0.16%
Variable rate savings accounts	1,785	10	0.55%	1,723	11	0.61%
Fixed rate term deposits	1,082	13	1.21%	1,433	21	1.52%
Total business deposits	**8,670**	**32**	**0.37%**	**8,653**	**41**	**0.47%**
Personal deposits:						
Current accounts	6,539	3	0.04%	6,046	3	0.04%
Variable rate savings accounts	5,386	44	0.82%	4,188	24	0.58%
Fixed rate term deposits	4,418	116	2.63%	4,542	144	3.17%
Total personal deposits	**16,343**	**163**	**1.00%**	**14,776**	**171**	**1.15%**
Other wholesale deposits	**96**	**1**	**0.85%**	**171**	**1**	**0.69%**
Current accounts:						
Interest-bearing current accounts	10,416	12	0.11%	9,741	12	0.12%
Non-interest-bearing current accounts	1,925	—	n/a	1,802	—	n/a
Total current accounts (non-interest-bearing and interest-bearing)	**12,342**	**12**	**0.10%**	**11,543**	**12**	**0.10%**
Total customer deposits	**25,108**	**196**	**0.78%**	**23,600**	**213**	**0.90%**

	Year ended 30 September 2013			Year ended 30 September 2012		
	Average balance	Interest Expense	Average yield/rate	Average balance	Interest Expense	Average yield/rate
Customer deposits:						
Business deposits:						
Current accounts	5,483	10	0.18%	5,309	10	0.18%
Variable rate savings accounts	1,879	14	0.74%	2,137	15	0.70%
Fixed rate term deposits	2,536	53	2.09%	3,673	76	2.07%
Total business deposits	**9,898**	**77**	**0.77%**	**11,119**	**101**	**0.92%**
Personal deposits:						
Current accounts	5,434	1	0.01%	5,006	1	0.02%
Variable rate savings accounts	3,579	17	0.48%	3,409	15	0.44%
Fixed rate term deposits	5,748	208	3.62%	5,823	225	3.86%
Total personal deposits	**14,761**	**226**	**1.53%**	**14,238**	**241**	**1.69%**
Other wholesale deposits	**565**	**4**	**0.70%**	**814**	**8**	**0.95%**
Current accounts:						
Interest-bearing current accounts	9,194	11	0.12%	8,776	11	0.12%
Non-interest-bearing current accounts	1,723	—	n/a	1,539	—	n/a
Total current accounts (non-interest-bearing and interest-bearing)	**10,917**	**11**	**0.10%**	**10,315**	**11**	**0.10%**
Total customer deposits	**25,224**	**307**	**1.22%**	**26,171**	**350**	**1.34%**

7. **Changes in Interest Income and Interest Expense – Volume and Rate Analysis**

The following table sets out a comparative analysis of changes in interest income and interest expense of CYBG Group for the years indicated. For further information, see "*Important Information – Presentation of certain financial and other information – Average balance sheet and interest rate data*".

	Year ended 30 September 2015 compared to year ended 30 September 2014			Year ended 30 September 2014 compared to year ended 30 September 2013			Year ended 30 September 2013 compared to year ended 30 September 2012		
	Increase/(decrease) in net interest income due to changes in:								
	Volume	Rate	Total net change	Volume	Rate	Total net change	Volume	Rate	Total net change
					£m				
Interest income:									
Mortgages	82	(19)	63	51	(12)	39	36	16	52
Business lending[1]	(39)	(7)	(46)	(64)	3	(61)	(73)	(21)	(94)
Unsecured personal lending	(3)	(14)	(17)	2	(11)	(9)	(9)	(1)	(10)
Liquid assets	3	—	3	(6)	(1)	(7)	5	(5)	—
Due from related entities	(1)	—	(1)	—	(1)	(1)	(8)	(1)	(9)
Swap income	n/a	(27)	(27)	n/a	(35)	(35)	n/a	(30)	(30)
Total interest income			**(25)**			**(74)**			**(91)**
Interest expense:									
Current accounts	(1)	1	—	(1)	—	(1)	(1)	1	—
Savings accounts	(7)	(12)	(19)	(3)	(1)	(4)	—	(1)	(1)
Term deposits	13	23	36	73	23	96	38	2	40
Other wholesale deposits	1	(1)	—	3	0	3	2	2	4
Bonds and notes	(15)	14	(1)	(4)	(2)	(6)	(6)	(17)	(23)
Due to related entities[2]	17	(7)	10	(1)	8	7	19	10	29
Liquid liabilities	(1)	2	1	(1)	(3)	(4)	2	2	4
Total interest expense			**27**			**91**			**53**
Net interest income			**2**			**17**			**(38)**

(1) The volume and rate variance on average business lending includes the volume and rate variances on the average balances of other financial assets at fair value. The volume and rate variance on average business lending excludes the impact of the disposal of an average £5,652 million of predominantly CRE assets and associated loans excluding provisions, which were transferred to NAB on 5 October 2012.

(2) The volume and rate variance on amounts due to related entities for the year ended 30 September 2012 excludes £5,084 million which was repaid to NAB in October 2012.

PART 5
OPERATING AND FINANCIAL REVIEW

The following discussion of the financial condition and results of operations of CYBG Group should be read in conjunction with the Historical Financial Information and other financial information relating to the business of CYBG Group included elsewhere in this Prospectus, including under "Important Information", Part 4: "Selected Financial and Other Information" and Part 9: "Unaudited Pro Forma Financial Information".

The Management Basis information in this Part 5 includes adjustments to present items that the Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the Historical Financial Information to the Management Basis information presented in paragraph 5 of Part 4: "Selected Financial and Other Information". These adjustments and CYBG Group's underlying results of operations on the Management Basis are both discussed below. See "Important Information – Presentation of certain financial and other information – Non-IFRS financial information – Management Basis" for further information.

The following discussion of CYBG Group's results of operations and financial condition contains forward-looking statements which reflect the current views of management. CYBG Group's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Prospectus, particularly "Risk Factors" and "Important Information – Forward-looking Statements". Investors should carefully consider the following information, together with the other information contained in this Prospectus, before investing in the Shares.

1. Overview

With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers, through its strong local community brands Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services. Clydesdale Bank is also one of only a small number of banks in the world that issues banknotes.

CYBG Group's long established retail and SME franchises have significant scale and strong market shares in personal current accounts, business current accounts, SME business lending and mortgages in its core regions. As at 30 September 2015, CYBG Group had 2.8 million retail and business customers, with £26,349 million of customer deposits and a £28,783 million customer loan portfolio, of which £20,504 million were mortgage loans, £7,061 million were business lending and the remainder of the portfolio was comprised of unsecured personal lending (including credit cards and overdrafts).

CYBG Group has a standalone operating platform, with limited ongoing support required from NAB under a TSA until CYBG Group's planned separation is fully implemented. CYBG Group's operating platform supports its full service customer proposition and enables CYBG Group to provide services to customers through multiple distribution channels. As at 30 September 2015, these distribution channels included 275 retail branches (121 Clydesdale Bank-branded branches and 154 Yorkshire Bank-branded branches) and 40 business and private banking centres (including 28 centres integrated with retail branches), strong and well-established relationships with leading third-party mortgage intermediaries, a rapidly evolving digital platform (including proprietary website and mobile offerings as well as participation in third-party aggregator sites), access to certain banking services through the Post Office's over 11,800 branches, telephony and voice services, and an ATM network. CYBG Group's distribution platform continues to develop to allow Clydesdale Bank and Yorkshire Bank customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer behaviour and preferences for omni-channel interactions.

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened. The Directors believe that CYBG Group's balance sheet is now more resilient and strongly capitalised, which together with the capital protection provided by the

Capped Indemnity package, provides a strong foundation to support CYBG Group's targeted future growth. Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring.

The Directors believe CYBG Group has the key strengths and capabilities to enable its experienced leadership team to execute the strategy as set forth herein.

2. Recent Developments

CYBG Group's trading performance in the three months ended 31 December 2015 has been in line with the Directors' expectations.

CYBG Group has maintained momentum in its loan book, with 6.6 per cent. growth in mortgages in the three months ended 31 December 2015 on an annualised basis with good growth in owner occupied mortgages. CYBG Group has maintained stable lending balances in its core SME book, and the run-off of the non-core SME book has continued as planned.

Asset quality has remained strong during the three months ended 31 December 2015 with continuing low impairment charges during the period.

CYBG Group continued to acquire personal and business current account customers, with 28,930 gross new business and personal current accounts opened in the three months ended 31 December 2015, delivering net account growth in the period. The Directors believe that CYBG Group's funding position remains strong. CYBG Group's total deposits grew as compared to 30 September 2015, and CYBG Group continues to seek to optimise the mix, pricing and liquidity value of its customer deposit base.

Net interest margin in the three months ended 31 December 2015 was stable and in line with guidance at 2.20 per cent. compared to the year ended 30 September 2015, on an annualised basis.

CYBG Group's management continues to focus on tight operating cost control, alongside delivery of the planned programme of investment in the franchise to improve the product and service offering to customers and drive growth.

3. Significant Factors Affecting Results of Operations and Financial Position

As a UK retail and SME bank, CYBG Group's business, financial condition and results of operations are affected by various factors, both external and internal. External factors include economic, political and social developments and conditions in the UK, the markets for retail and SME financial services including lending, deposits and complementary products, and the UK and European regulatory environment.

Internal factors include CYBG Group's strategic objectives and initiatives to simplify and grow the business, reduce operating costs and increase operational efficiency; provisioning; CYBG Group's prudent risk appetite and risk management policies and procedures; and balance sheet, liquidity and funding management.

The Directors believe that the following factors have had a significant effect on CYBG Group's historical results of operations and financial condition and/or are likely to have a significant effect on CYBG Group's future results of operations and financial condition.

3.1 *2012 Strategic Review*

In 2012, CYBG Group and NAB conducted a strategic review of CYBG Group and the UK banking market in response to the weak macro-economic environment in the UK in 2011 and 2012. During this period, CYBG Group had experienced financial challenges due to declining UK commercial property values, challenging regulatory and political conditions facing the UK banking market and the UK economy generally and higher funding costs. On 30 April 2012, CYBG Group and NAB announced the results of the strategic review, which principally consisted of a decision to simplify CYBG Group's business model to focus on retail operations and SME business lending across CYBG Group's traditional core regions and to improve CYBG Group's balance sheet structure by transferring a significant majority of its CRE assets to NAB. As part of the 2012 strategic review, CYBG Group retained the majority of its retail network of over 300 branches and retail frontline staffing levels. With respect to business lending, CYBG Group made the strategic decision to reshape the geography, risk appetite and composition of its service proposition by moving to a tiered service model for business banking, ranging from a direct telephone-based service to a full relationship manager-based service in its core regions, operating through 40 business and private banking centres focused on the core regions in Scotland and the North of

England/Yorkshire and nine business and private banking centres serving the South of England. CYBG Group also announced in 2012 that it would streamline its operations, technology and support functions with a view to increasing efficiency and reducing operating costs. The impact of the strategic review and resulting actions led to:

- the transfer to NAB of £5,225 million of predominantly CRE assets and associated loans net of provisions on 5 October 2012;
- growth in the retail business and, in particular, the mortgage book;
- tightened business lending risk appetite and the resulting managed decline in business lending;
- improving asset quality as a result of tightened risk appetite and changes in the lending book mix, combined with the general economic conditions during the period under review; and
- restructuring and other cost management activities in response to the above.

Each of the above factors is discussed in further detail below.

3.2 *UK macro-economic and regulatory conditions*

Substantially all of CYBG Group's operations are in the UK and substantially all of its loans and advances are to customers in the UK. Accordingly, CYBG Group's income is derived almost entirely from UK customers. As a result, CYBG Group's business, financial condition and results of operations are, and will continue to be, significantly affected by macro-economic conditions in the UK, in particular with respect to business confidence, business lending and investment activity, commercial property prices, the housing and savings markets, GDP, interest rates, unemployment and government and regulatory actions related to the economy.

The overall performance of the UK economy drives employment levels, house prices and aggregate savings balances, which affect CYBG Group's performance. The following table sets out selected economic indicators for the UK as at and for the year ended 30 September 2015 and as at and for the years ended 31 December 2014, 2013 and 2012.

	As at and for the year ended 30 September	As at and for the year ended 31 December		
	2015	2014	2013	2012
Real GDP growth[1]	2.1%	2.8%	1.7%	0.7%
Inflation[2]	0.2%	1.5%	2.6%	2.8%
Unemployment[3]	5.3%	6.2%	7.6%	8.0%
House Price Index[4]	n/a[10]	10.0%	3.5%	1.6%
House Price Index[5](peak to trough % change)	n/a[10]	11.5%	1.6%	(3.7)%
Average system growth (housing)[6]	1.6%	0.3%	0.7%	1.2%
Average system growth (business lending)[7]	(4.0)%	(4.5)%	(6.1)%	(4.2)%
System savings growth[8]	5.2%	6.0%	10.4%	(0.2)%
Bank of England base rate[9]	0.50%	0.50%	0.50%	0.50%

(1) Source: Office of National Statistics, Economic Intelligence Unit.

(2) Source: Office of National Statistics, Economic Intelligence Unit.

(3) Source: Office of National Statistics, Economic Intelligence Unit.

(4) Office of National Statistics. Housing market: house prices from 1930, annual house price inflation, United Kingdom, from 1970.

(5) Office of National Statistics. Period-end figures.

(6) Bank of England Money and Financial Statistics: Lending secured on dwellings. These amounts reflect the total lending secured on dwellings less mortgages in connection with housing associations and other data that may be affected by securitisations and loan transfers up to December 2009 and loan transfers from January 2010. These amounts are not seasonally adjusted.

(7) Bank of England Money and Financial Statistics: Industrial analysis of monetary financial institutions' lending to UK residents. These amounts reflect the amount of lending outstanding to UK residents less total amounts from individuals and individual trusts, activities auxiliary to financial institutions, total insurance companies and pension funds and financial intermediation (excluding insurance and pension funds). These amounts are not seasonally adjusted.

(8) Bank of England. These amounts reflect the average retail amounts of deposits and cash outstanding for a given period. These amounts are not seasonally adjusted.

(9) Bank of England base rate at period end.

(10) Data is not available.

Banking performance in the UK is correlated with the health of the UK economy. UK real GDP growth, which has been higher than real GDP growth of European peers, was 3.0 per cent. in 2014, and UK real GDP was forecast to grow 2.6 per cent. in 2015 (*Source: Office for National Statistics, HM Treasury*).

Other key UK macro-economic indicators have also shown improvements. In the three months to August 2015, the unemployment rate fell to a seven year low of 5.4 per cent. and the employment rate rose to 73.6 per cent., which was the highest rate since records began in 1971 (*Source: Office for National Statistics*). In the three months to August 2015, workers' total earnings were also up 3 per cent. compared to the prior year. Inflation, as measured by the CPI fell to -0.1 per cent. in September 2015. Core inflation, which excludes volatile elements like food and energy, remained low at 1.0 per cent. The British Chamber of Commerce expects inflation to remain below the Monetary Policy Committee target of 2 per cent. until 2017.

The Bank of England base rate has been set at 0.5 per cent. since March 2009. The prolonged low interest rate environment has had a significant impact on CYBG Group's performance. In particular, CYBG Group enters into two and five year rate swaps to stabilise the returns on low or non-interest-bearing liabilities such as current accounts, and equity. As a result, the returns on low-interest-bearing liabilities have declined and this has influenced CYBG Group's results of operations and financial condition during the period under review. In addition, rates on term deposits, although currently lower than they were three years ago, have tended to be higher than the Bank of England base rate, which has resulted in compressed spreads and a reduction in net interest margin for UK banks, including CYBG Group, during the period under review. In the event of an increase in the Bank of England base rate, CYBG Group plans to take into account the commercial and market environment at the time when considering its response to, and the impact of, such an increase. Subject to the commercial and market environment, with respect to liabilities such as current accounts, CYBG Group would expect to retain a proportion of any increase(s) in the Bank of England base rate, and with respect to assets priced on the basis of the Bank of England base rate, CYBG Group would expect that interest rates on such assets would move in line with the base rate in the event of increases in the base rate.

In response to the prevailing economic conditions, the trends in both retail and business banking at the beginning of 2012 were for customers to deleverage, borrow less and save more. The combination of increased customer confidence in the UK economy since 2013, rising house prices and lower mortgage rates led to retail customers beginning to borrow again, as evidenced by growth in overall mortgage lending in the UK. However, demand remains weak relative to the pre-recession environment, in particular in the business lending sector. Lower mortgage rates and declining unemployment have also made it easier for borrowers to service their debt. CYBG Group's impairment charge to average customer loans ratio improved from 0.74 per cent. for the year ended 30 September 2012 to 0.21 per cent. for the year ended 30 September 2015.

The macro-economic environment has also affected the level of competition in the UK banking market, which has had an impact on CYBG Group's financial performance. The increasingly competitive environment among UK banks has, *inter alia*, placed downward pressure on mortgage rates, and therefore margins.

UK banks, including CYBG Group, will need to continue to adapt to the changing political and regulatory environment, with a focus on achieving fair outcomes for customers and building resilient business models. The regulatory implications for the UK banking sector include reduced fee and commission income, additional operating costs associated with improving the customer experience and managing conduct risk and requirements to hold higher quality capital. The UK banking industry, including CYBG Group, will need to continue to invest in each of these areas.

3.3 *Commercial real estate portfolio transfer to NAB*

CYBG Group's CRE portfolio was established in the pre-recession environment and, in 2012, had increased credit risk arising from, among other things, the fall in property prices, exposure to development risk, lack of demand for property and concentration risk, in addition to carrying a high capital requirement. The strategic review conducted by CYBG Group and NAB in 2012 concluded that the majority of the CRE portfolio did not fit within CYBG Group's risk appetite and that CYBG Group should dispose of substantially all of this portfolio to NAB.

CYBG Group recognised an impairment charge of £564 million in respect of the legacy CRE portfolio in the year ending 30 September 2012 and the transfer of £5,225 million of predominantly CRE assets and associated loans net of provisions was completed on 5 October 2012. The proceeds of the transfer were used to repay £5,084 million of funding from NAB.

The transfer of the legacy CRE portfolio enabled CYBG Group to substantially reduce its risk profile, in terms of the levels of total RWAs, the average risk weighting of the asset portfolio and asset quality terms. In addition to improving CYBG Group's risk profile, the repayment to NAB, following the transfer of the CRE portfolio, resulted in reduced reliance on parental funding, which decreased from £7,716 million as at 30 September 2012 to £998 million as at 30 September 2015.

Following the transfer of the CRE portfolio, CYBG Group has provided services to NAB in connection with the legacy CRE portfolio, for which it received a service charge of £15 million in the year ended 30 September 2013, £10 million in the year ended 30 September 2014 and £5 million in the year ended 30 September 2015. The service charge has decreased due to the reduction in the size of the legacy CRE portfolio during the period under review.

The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio during the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the legacy CRE portfolio disposal of £502 million. The effect of these adjustments had a significant impact on the position and performance of CYBG Group during the period under review and are further discussed in paragraph 7.9.7: "*Disposed legacy CRE portfolio impact*" below.

3.4 ***Mortgage book growth***

As part of the 2012 strategic review, CYBG Group decided to reduce business lending and focus on mortgage growth. The transfer of CRE assets resulted in a significant reduction in CYBG Group's capital requirements. As a result, CYBG Group was able to redeploy capital to mortgage lending, with the objectives of improving return on RWAs and using capital more efficiently. The ability of CYBG Group to generate mortgage growth is a key factor in determining its financial performance. During the period under review, CYBG Group has increased its mortgage portfolio from £15,369 million as at 30 September 2012 to £20,504 million as at 30 September 2015, representing a CAGR of 10.1 per cent. The CAGR of mortgage loans in the UK market as a whole over the same period was 1.4 per cent., according to statistics from the Bank of England. While the principal source of gross new mortgage lending has been intermediary mortgage lending, CYBG Group has also increased gross new mortgage lending volumes through its private bank and branch networks (collectively, the "**proprietary channels**").

CYBG Group operates a multi-channel distribution strategy, utilising the intermediary channel to provide national capability alongside direct sales through its proprietary channels, including the branch and the private banking networks, which deliver loan volumes in its core regions. There has been a particular focus on using the intermediary channel to diversify the portfolio across different geographic regions with customer acquisition in the South East expanding CYBG Group's customer base outside of Scotland and the North of England. The use of the intermediary channel has enabled CYBG Group to compete both effectively and cost efficiently outside of its core regions, reducing concentration risk within those regions without having to increase the size of its branch network or add a significant number of employees. As at 30 September 2015, CYBG Group's outstanding intermediary mortgage balances outside of its core regions constituted 86 per cent. of total intermediary mortgage balances.

CYBG Group's mortgage lending through the intermediary channel has enabled it to grow its loan portfolio at above-market rates without compromising the asset quality of the mortgage book and has facilitated diversification across the mortgage book. CYBG Group's longstanding intermediary relationships and its intermediary mortgage processing capability has also contributed to diversification and growth in CYBG Group's mortgage portfolio. CYBG Group has increased the balance of intermediary mortgages from £3,798 million as at 1 October 2011 (representing 27 per cent. of CYBG Group's total mortgage book) to £10,910 million as at 30 September 2015 (representing 53.2 per cent. of CYBG Group's total mortgage book). Intermediary mortgages represented 74.1 per cent. of CYBG Group's gross new mortgage lending during the period under review. The UK intermediary mortgage market has grown in recent years, from representing 48 per cent. of gross new UK mortgage lending by value in the year ended 30 September 2012 to representing 67 per cent. of gross new UK mortgage lending in the year ended 30 September 2015, according to CML Regulated Mortgage Survey data. See Part 2: "*Information on CYBG Group – Strengths – Long established franchise in its core regional and selected national markets*" for further information.

The remaining 25.9 per cent. of CYBG Group's gross new mortgage lending during the period under review comprised gross new lending through its proprietary channels. CYBG Group's ability to generate mortgage growth through its proprietary channels is supported by its established and well-located branch operating model. Mortgage lending through the proprietary channels has extended CYBG Group's brand presence whilst meeting the needs of customers in its local communities. CYBG Group expects to continue to leverage its key distribution channels in the future to support its mortgage growth strategy.

3.5 ***Changes in mortgage book mix***

CYBG Group's mortgage book is comprised of fixed rate, variable rate and tracker rate mortgages, which have different gross yields. The composition of the mortgage book has a material impact on the net interest income, net interest margin and overall returns of CYBG Group. The fixed rate, variable rate and tracker book margins were lower than CYBG Group's net interest margin during the period under review. However, the returns on RWAs for CYBG Group's fixed rate and variable rate mortgages were higher than CYBG Group's overall returns on RWAs during the period under review due to relatively lower levels of RWAs held against mortgages.

During the period under review, there has been a strong customer preference for fixed rate products, which is reflected in the level of new mortgage loans at fixed rates (86.0 per cent. of gross new mortgage lending in the UK market as a whole comprised fixed rate mortgage lending in the year ended 31 August 2015 according to CML industry data). This customer preference has driven growth in the size of CYBG Group's fixed rate mortgage book from £3,851 million as at 30 September 2012 to £12,710 million as at 30 September 2015. Over the same period, there has been a decrease, although to a lesser extent, in variable rate mortgages from £8,152 million as at 30 September 2012 to £5,169 million as at 30 September 2015, mainly driven by customers switching to fixed rate mortgages and refinancing elsewhere. The variable rate mortgage book includes mortgages at CYBG Group's SVR, which is currently set at 4.95 per cent. The interest rate on fixed rate mortgages generally reverts to the SVR rate at the end of the fixed rate period. The average balance of the variable rate book was £5,559 million for the year ended 30 September 2015 with an average yield of 3.63 per cent. The balance of mortgages on the SVR rate as at 30 September 2015 was £3,081 million with an average yield of 4.96 per cent. The lower average yield on the variable rate mortgage book was largely driven by the impact of offset facilities and discount products.

As is the case with other UK banks, CYBG Group's mortgage portfolio contains base rate tracker mortgages. The average yield on these tracker mortgages was approximately 1.42 per cent. for the year ended 30 September 2015. In the current interest rate environment, the gross yield is lower than CYBG Group's funding cost for these tracker mortgages, resulting in a negative interest margin and a drag on its return on equity. In 2008, CYBG Group ceased sales of its tracker rate mortgage portfolio, except on a limited basis to CYBG Group's employees under a staff scheme, and balances have continued to fall during the period under review from £3,366 million as at 30 September 2012 to £2,625 million as at 30 September 2015. The tracker mortgages are running off at a contractual maturity of £200 million to £300 million per annum. CYBG Group estimates that the benefit to the average yield of its total mortgage portfolio from the run-off of the tracker book from the year ended 30 September 2012 to the year ended 30 September 2015 was approximately 6 basis points in aggregate, or approximately 2 basis points per annum in each of the three years ended 30 September 2015.

CYBG Group expects the mortgage book mix to continue to have a material impact on its financial performance in the future.

3.6 ***Refocused business lending***

CYBG Group's business lending has declined at a CAGR of 13.5 per cent. from 30 September 2012 to 30 September 2015. This rate of decline excludes the impact of the transfer to NAB of the legacy CRE portfolio, which was included in assets held for sale at 30 September 2012. The decline in business lending during the period under review is due to a combination of factors. The economic environment has led to businesses de-leveraging, with lower loan utilisation and increased cash deposits. This is evident in the system data for business lending, which has shown a contraction in business lending of approximately 5 per cent. per annum on average during the period under review, according to statistics from the Bank of England.

As part of the 2012 strategic review, CYBG Group focussed on its core regions by reducing its business network through the closure of business and private banking centres. CYBG Group made the strategic decision to reshape the geography, risk appetite and composition of its service proposition by moving to a tiered service model for business banking, ranging from a direct telephone-based service to a full relationship manager-based service in its core regions. Following the 2012 strategic review, CYBG Group tightened its business lending risk appetite and effectively withdrew from certain segments of the market during the period under review. CYBG Group also reduced the number of business banking personnel. Additionally, CYBG Group has managed the reduction of lower yielding assets across the business with the aim of improving overall returns. This strategic shift, together with reduced business lending in the UK market generally, drove the reduction in CYBG Group's business lending portfolio.

CYBG Group's strategy for business lending is to focus on SME businesses in its core regions. See Part 2: "*Information on CYBG Group – Strategy – Grow the customer franchises by leveraging capabilities in existing core regional markets and continue its successful national growth strategy – Grow the SME franchise*" for further information.

3.7 ***Improving asset quality***

During the period under review, the change in composition of CYBG Group's balance sheet, in addition to improving macro-economic conditions, has resulted in a material and sustained improvement in asset quality. In particular, CYBG Group has actively managed to achieve a lower risk lending profile through the transfer of the majority of the legacy CRE portfolio to NAB in October 2012, controlled growth of the mortgage portfolio and further reductions in business lending. The unsecured personal lending portfolio has remained relatively stable.

Credit risk associated with the business lending portfolio initially improved through the transfer of the majority of the legacy CRE portfolio to NAB in 2012. As a result of the rationalisation of CYBG Group's business banking footprint and changes to CYBG Group's risk appetite during a period of subdued market demand the business lending portfolio has contracted. Within business lending, the level of corporate exposure and the 'single name' exposure risk have each reduced. Following the transfer of CRE assets to NAB, the agriculture (soft commodities) sector became the largest sector concentration for CYBG Group comprising 24 per cent. of CYBG Group's total business lending as at 30 September 2015 compared to 17 per cent. as at 30 September 2012. CYBG Group has long-established expertise in the agricultural sector which, in combination with generally stable market conditions and growth in agricultural asset values, has resulted in low levels of impairment losses. Reduced exposures to higher risk sectors such as hospitality and construction have been a key element of the portfolio contraction which have contributed to the material and sustained improvement in the portfolio's aggregate asset quality.

A key factor in CYBG Group's improved overall portfolio asset quality has been the increased proportion of secured mortgage lending within its portfolio. As the mortgage market has recovered, CYBG Group has grown its market share of stock from 1.3 per cent. as at 30 September 2012 to 1.5 per cent. as at 30 September 2014 and 1.6 per cent. as at 30 September 2015, according to statistics from the Bank of England. CYBG Group has a national market share of gross new mortgage lending of 2.4 per cent. for the year ended 30 September 2015 according to CML data, while the average indexed LTV of CYBG Group's mortgage book decreased from 66.6 per cent. as at 30 September 2012 to 55.3 per cent. as at 30 September 2015.

As a result of the improved asset quality and more favourable macro-economic conditions, the impairment losses on credit exposures on the Management Basis fell from £173 million for the year ended 30 September 2012 to £144 million for the year ended 30 September 2013, £74 million for the year ended 30 September 2014 and £78 million for the year ended 30 September 2015. Impairment losses on credit exposures on the Management Basis for the year ended 30 September 2012 exclude a charge of £564 million in connection with the transfer of the legacy CRE portfolio to NAB in October 2012. In the year ended 30 September 2015, impairment losses on credit exposures marginally increased reflecting a modest rise in the charge for CYBG Group's growing mortgage portfolio. Business lending losses on the amortised cost portfolio were flat in 2015 compared to 2014, but reduced when combined with the fair value loan book, which experienced a reduction in the credit risk charge.

CYBG Group expects the asset quality of the mortgage and business lending portfolios to continue to be a primary factor in determining levels of impairment charges in CYBG Group's results of operations moving forward. The Directors believe that a material and sustained improvement in asset quality has been achieved. As a result of an improved economic environment, the CYBG Directors believe the impairment charge to average customer loans ratio at the end of the fiscal year 2015 will be close to or at a cyclical low.

3.8 ***Funding mix changes***

CYBG Group has improved its funding position and mix in the period under review by replacing a significant volume of short-term wholesale funding with retail deposits and secured term wholesale funding. In addition, following the transfer of the legacy CRE portfolio, CYBG Group repaid funding due to NAB, which further improved its mix of funding. Combined funding from the wholesale markets and funding from related entities has declined from £10,903 million as at 30 September 2012 to £4,764 million as at 30 September 2015.

As the level of wholesale funding decreased, CYBG Group has also been able to reduce the size of its liquid asset portfolio from £8,968 million as at 30 September 2012 to £7,893 million as at 30 September 2015, while maintaining prudent levels of liquidity in excess of regulatory requirements.

The LDR was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015. The decrease in the LDR primarily resulted from deposits growing at a faster rate than lending.

In 2011, following a credit rating downgrade, CYBG Group experienced sudden withdrawal of short-term wholesale funding. In response, CYBG Group was able to quickly replace this funding through fixed-rate term customer deposits. The majority of these fixed-rate term customer deposits had a maturity of 12 or 24 months and were a relatively expensive source of funding. CYBG Group proactively managed down the volume of fixed-rate term deposits from £9,922 million as at 30 September 2012 to £5,483 million as at 30 September 2015.

Since 2011, CYBG Group has also been able to proactively respond to the change in market conditions by reducing its customer deposit costs. In particular, CYBG Group has increased volumes of its non-interest-bearing or low interest current account deposits and lower cost variable rate savings account deposits. The overall impact has been to decrease the average cost of customer deposits from 1.34 per cent. for the year ended 30 September 2012 to 0.78 per cent. for the year ended 30 September 2015. This has been a key driver of net interest margin stability during the period under review.

In addition to reducing funding costs, CYBG Group has been actively seeking to maintain a diverse, sustainable funding base, and over time, to further reduce its reliance on short-term wholesale funding sources. Since 2011, CYBG Group has worked further to diversify its funding mix through collateralised debt programmes (including RMBS and covered bonds) and other wholesale funding. As at 30 September 2015, CYBG Group had £3,766 million of outstanding RMBS and covered bonds with maturities ranging from August 2016 to June 2026. As a result of these issuances, the majority of CYBG Group's wholesale funding is now long-term funding (with a maturity greater than one year).

While term wholesale deposits and securitisation vehicles provide funding with a more predictable maturity profile, customer deposits provide low cost and stable funding, and as a result, will continue to be the most important source of funding for CYBG Group moving forward. CYBG Group will continue to manage the overall funding composition in terms of mix of retail and wholesale, mix of on demand deposits and term deposits and overall stability of funding, while seeking to limit reliance on short-term wholesale funding in order to effectively manage risk and return.

3.9 *Restructuring and cost reduction*

As part of the 2012 strategic review, CYBG Group implemented a restructuring plan that primarily comprised a reduction in staff, the closure of 29 business and private banking centres, the relocation of nine business and private banking centres and the closure of six back office locations.

CYBG Group recorded a restructuring provision of £149 million in 2012. A related charge of £36 million was also taken in the year ended 30 September 2012 for software impairment, predominantly for business banking systems.

The restructuring programme following the strategic review led to annualised cost savings of £82 million, which were above the original target of £74 million, and a reduction of over 1,400 FTEs. While the majority of staff reductions came from business banking, CYBG Group completed some broader streamlining activity across other areas of the bank. In the year ended 30 September 2015, CYBG Group closed 24 branches and spent £10 million on various improvements to its banking network, including the relocation of 4 branches, the extensive refurbishment of 15 branches as well as minor improvements to a number of other branches.

CYBG Group continues to review its operational efficiencies across middle and back office activities; this review has focussed on process improvements to enhance the customer experience and has included a review of CYBG Group's property footprint across the UK. As a result of these ongoing projects, CYBG Group recorded a charge of £17 million to the income statement for restructuring expenses in the year ended 30 September 2015. As at 30 September 2015, the closing balance of the restructuring provision was £18 million.

3.10 ***Legacy conduct-related redress***

3.10.1 *PPI Redress*

During the period under review, conduct-related issues have had a significant impact on the profitability of a number of participants in the UK retail banking market. PPI redress, in particular, is one of the most significant factors affecting profitability for UK retail banks, including CYBG Group, in recent years. Prior to 2012, CYBG Group raised provisions of £136 million to address PPI-related misconduct. CYBG Group has raised PPI customer redress provisions of £120 million, £130 million, £420 million and £390 million during the years ended 30 September 2012, 2013, 2014 and 2015, respectively. These provisions were recorded in other operating and administrative expenses and have been excluded from CYBG Group's results of operations on the Management Basis.

Following an initial review of sample PPI complaint files by the FSA (now the FCA), in 2013, CYBG Group became subject to an FCA s166 "skilled persons" review into PPI complaint handling policies and procedures and an FCA enforcement process. As a result, CYBG Group has made significant changes to its PPI complaint handling processes, implementing a revised PPI complaint handling policy in August 2014. Prior to the introduction of the revised PPI complaints handling policy, CYBG Group had processed and closed approximately 180,000 PPI complaints (as at the end of July 2014). CYBG Group will re-open these complaints and subject them to review under the revised PPI complaint handling policy and a plan for the remediation programme has been prepared. The process is expected to begin in early 2016 and is expected to run for a period of approximately two to three years.

On 14 April 2015, the FCA issued a fine of £21 million against Clydesdale Bank for failings related to its PPI complaint handling processes between May 2011 and July 2013. This amount is recorded within other operating expenses for the year ended 30 September 2015 and has been excluded from CYBG Group's results of operations on the Management Basis.

CYBG Group has also commenced a Past Business Review of PPI sales. In August 2015, CYBG Group concluded its review and determined that a further PPI provision should be raised incorporating an estimate of the cost of contacting and redressing customers who have faced actual detriment or may have experienced potential detriment. While the provision for this matter has not yet been utilised, proactive customer mailings are expected to commence in early 2016 and run for a period of approximately two years, and so key inputs to the calculation such as the level of customer response to mailings are not known but based on historical experience of CYBG Group and industry data. As such, this and other factors discussed above mean there is a risk that existing provisions for PPI customer redress may not cover all potential losses and further provisions will need to be made which, notwithstanding the terms of the Capped Indemnity (described below), could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

CYBG Group has reassessed the level of provision that is considered appropriate to meet current and future expectations in relation to mis-selling of PPI policies and has concluded that a further provision of £390 million should be recognised for the year ended 30 September 2015; in addition to the provision of £420 million raised in 2014, resulting in total unutilised provisions of £774 million at 30 September 2015. This includes recognition of a provision for a proactive customer contact and redress programme following the Past Business Review, increased costs of administering the remediation programme and higher than expected customer initiated complaint volumes.

3.10.2 *Interest Rate Hedging Products and Other Conduct*

Although PPI redress is the most significant conduct-related risk for CYBG Group, CYBG Group has raised provisions for other conduct-related matters during the period under review. The most significant item covered by the provision for other conduct was the provision for the review of IRHP/FRTBL matters, which had an unutilised amount of £192 million as at 30 September 2015 with the provision including the amount set aside for the Standalone IRHP review, Voluntary Scope TBLs and the complaint-led review of FRTBLs. As at 30 September 2015, CYBG Group had raised cumulative provisions of £506 million in respect of IRHP/FRTBL matters. The income statement effect of the provision for IRHP/FRTBL matters for the years ended 30 September 2012, 2013 and 2014 was nil, due to the recognition of an off-setting receivable from NAB. In August 2015, CYBG Group recognised a charge of £75 million for IRHP/FRTBL matters. The total provision for customer redress and other conduct-related matters, including IRHP and FRTBLs, was £212 million as at 30 September 2015. The reduction in the unutilised amount was mainly due to the utilisation of £245 million during the year ended 30 September 2015 to cover programme costs and customer acceptance of redress offered for the complaint led review of FRTBLs and the move towards completion of the Standalone IRHP and Voluntary Scope TBL reviews.

On 29 June 2012, the FSA announced that it had reached agreement with eight other UK banks in relation to a review and redress exercise on sales of Standalone IRHP to small and medium businesses. CYBG Group agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and embarked on a programme to identify small and medium sized customers that may have been affected since 2001. The exercise also encompasses a voluntary review of certain of CYBG Group's Voluntary Scope TBLs as well as the regulated review of Standalone IRHP identified in the FSA's notice. In order to be included within the FSA redress exercise, claims had to be submitted by 31 March 2015 and accordingly, the Standalone IRHP scheme has been closed to new entrants. All redress offers had been delivered to all customers affected by the Standalone IRHP review by 31 October 2015 (as well as those customers within the Voluntary Scope TBLs review). The scheme is fully provided for with an amount of unutilised provisions remaining of £55 million as at 30 September 2015 to cover future costs. Whilst the FCA's response to the Select Committee report is unknown and there can be no certainty that further action will not be required, the Directors expect that any outstanding offers of redress will settle by the first quarter of 2016 and the Directors believe that the risk of any formal reopening of this issue is low. Notwithstanding the closure of the scheme, customers will continue to have the ability to complain and decide to proceed with litigation or with an alternative method of seeking redress.

In addition, CYBG Group has agreed to undertake a complaints-led review of FRTBLs, which fall outside the scope of the FSA's review. This review encompasses new walk-in and previously closed complaints. CYBG Group has estimated that it sold approximately 10,000 FRTBLs, with more than half of such loans having an original maturity of 5 years or less. The Directors believe that loans having an original maturity of 5 years or less are generally less likely to have a basis for demonstrating detriment. The redress paid per upheld complaint varies significantly based on a number of factors including the nature of the specific product sold, loan size, maturity, interest rates over the life of the loan and break fees. The number of new complaints received declined in the second and third quarter of 2015, compared to the first quarter of 2015, and the Directors expect complaints to continue to decline and the issue to be substantially resolved by the first half of 2017. CYBG Group currently estimates that unutilised provisions of £137 million as at 30 September 2015 in respect of FRTBLs will cover approximately 18 months of redress and settlement of these matters is progressing though the provision remains sensitive to an increasing trend in the number of complaints received and accordingly remains under review.

Other conduct provisions also include provisions in respect of legal proceedings and claims arising in the ordinary course of CYBG Group's business. This covers a number of historic matters, including CYBG Group's contribution to the banking industry response to the scheme of arrangement for Affinion International, a provider of card and identity protection products.

CYBG Group has invested in recent years in reviewing its back book to identify any potential conduct issues. In addition, significant cultural and process changes, including the Customer Fairness Model, the Conduct Framework and the Product Governance Framework, have been implemented across the enterprises which are intended to ensure that CYBG Group's business model and supporting practices ensure the fair treatment of customers.

3.10.3 *Provisions*

The table below sets out CYBG Group's total provisions raised, total provisions utilised and unutilised provisions remaining as at 30 September 2015.

As at 30 September 2015	**Total Provisions Raised**	**Total Provisions Utilised**	**Unutilised Provisions Remaining**
		£m	
PPI			
Redress:			
Walk-ins/Past Business Review	578	277	301
Remediation[1]	270	—	270
Costs to do[2]	348	145	203
Total PPI	**1,196**	**422**	**774**
IRHP/FRTBLs			
IRHP	268	213	55
FRTBLs	238	101	137
Total IRHP/FRTBLs[3]	**506**	**314**	**192**
Other[4]	48	28	20
Total	**1,750**	**764**	**986**

1 Represents total provisions raised to cover previously closed complaints that are being reassessed.

2 Represents total expected administrative costs for remediating PPI customer complaints.

3 Includes costs to do.

4 Excludes provisions previously raised and resolved. Includes industry wide scheme issues including Affinion and other specific conduct issues of CYBG Group.

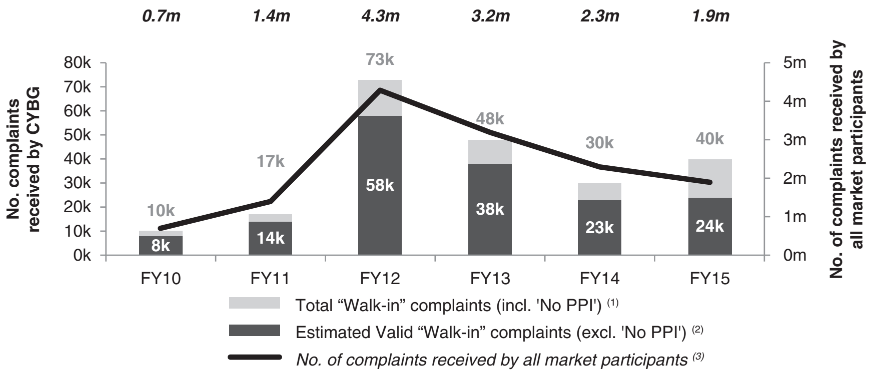
CYBG Group has undertaken substantial investment to reduce conduct risk in the front book, comprising products sold in the last twelve months, and has adopted robust governance policies and procedures to address legacy conduct issues and to mitigate future conduct risks.

CYBG Group has raised substantial provisions to cover PPI matters, including the Past Business Review and the remediation programme. CYBG Group has also raised provisions to cover IRHP and FRTBL related matters. In addition to total unutilised provisions of £986 million, CYBG Group expects the £1.115 billion available under the Capped Indemnity to cover a severe stress test of CYBG Group's existing provisioning models and a range of stresses (beyond those considered necessary to be applied by CYBG Group for provisioning purposes) to the key assumptions used in establishing provision levels, including the number of complaints, uphold rates and average redress payable for PPI claims, as well as response rates to proactive engagement pursuant to the Past Business Review.

3.10.3.1 *Walk-ins/Past Business Review*

The provision for walk-ins and the Past Business Review covers the estimated cost of the Past Business Review and additional walk-in complaints for PPI related matters assuming there is a decline in the number of walk-in complaints over time. The provision covers an estimate of 175,000 further PPI complaints, this estimate includes the redress costs for the proactive engagement exercise under the Past Business Review and includes both valid and 'no PPI' walk-in complaints (but it does not cover cost to do for those complaints as they are provisioned separately).

The graph below sets out the number of CYBG Group's PPI walk-in complaints and the number of complaints received by all market participants between 2010 and 2015.



1 Chart excludes pre-2010 complaints.

2 The status of a valid walk-in complaint is based on the initial assessment that takes place at the time the complaint is received, which is subject to change until the complaint is closed.

3 Data for CYBG Group is provided for the years ended 30 September. Industry data is provided for the years ended 31 December. For the year ended 31 December 2015, industry data is a pro rata figure based on the six months ended 31 December 2014.

CYBG Group reports walk-in data for PPI based on the number of complaints received, as opposed to the number of policies associated with a single complaint. Each walk-in complaint typically involves more than one policy and therefore, its reported average redress amounts are higher than many other market participants that report on a redress per policy basis. The average redress payment per PPI walk-in complaint varies by product and by the number of policies requiring redress per walk-in.

Since 2012, the number of CYBG Group's PPI walk-in complaints has declined, although increased activity by claims management companies has driven an increase in total PPI complaints for the year ended 30 September 2015. In the year ended 30 September 2015, the number of CYBG Group's PPI walk-in complaints averages approximately 3,300 per month. The average redress per upheld complaint (excluding costs to do) since August 2014, the date of implementing a revised PPI complaint handling policy, has been approximately £4,000.

The table below sets out the key assumptions and the effect on the provision at 30 September 2015 of future, potential, changes in key assumptions:

Assumptions	Change in assumption	Sensitivity[1]
Number of expected future customer initiated complaints	+/-10%	£9m
Uphold rates:		
Future complaints	+/-1%	£4m
Pre August 2014 complaints review	+/-1%	£8m
Customer contact response rate:		
Pre-August 2014 complaints review	-1%	£(3)m
Past Business Review response rate	+/-1%	£5m
Average redress costs[2]	+/-1%	£8m

(1) There are inter-dependencies between several of the key assumptions which add to the complexity of the judgements CYBG Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

(2) Sensitivity to a change in average customer redress across customer initiated complaints, pre-August 2014 complaints review and Past Business Review customer populations.

In order to provision for the number of additional walk-ins, CYBG Group uses model scenarios to account for its recent experience and comparisons to projections provided by other UK banks by looking at the proportion of future expected complaints to total life cycle expectations. For provisioning purposes, CYBG Group has positioned its future volume/total life cycle assumption higher than other UK banks, recognising that these banks have largely completed their past business review programmes whereas CYBG Group will not begin its Past Business Review until early 2016. The provision model assumes complaints will gradually decline in the future through to June 2017.

The number of walk-in complaints processed under the revised PPI complaint handling policy and the review of historical complaints has provided empirical information over time to help make assessments of PPI redress provisions. Whilst the FCA consultation on time barring PPI claims raises the possibility of a limit being imposed on the bringing of future claims, any such time barring could lead to an increase in the level of potential claims ahead of any such cut-off date. The FCA's response to the *Plevin* case on the handling of PPI complaints and remediation is also unknown and the impact of the *Plevin* case may have a material impact on CYBG Group's estimates and assumptions relating to future conduct risk. Accordingly, the position remains uncertain and CYBG Group's provision levels remain under review in response to changing circumstances. Due to the level of uncertainty in relation to the FCA consultation on time barring and the *Plevin* case, these items are contingent liabilities in the Historical Financial Information. For further information, see "*Risk Factors – CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses*".

Provisions for the Past Business Review are based on a number of assumptions and information including that drawn from other UK banks' actual experience as reported in their accounts and the FCA. A key assumption in calculating provisions is the response rate to mailing. Other key assumptions include the number of complaints, the uphold rate and the average redress for walk-ins which is used to estimate the average redress for customers that would be remediated through the Past Business Review.

CYBG Group conducted the Past Business Review with an approach that was similar to that of the five large UK banks. CYBG Group expects to contact approximately 114,000 customers, the total number of customers in scope for the Past Business Review. The 114,000 customers expected to be contacted excludes approximately 61,000 customers that are excluded on the basis of having already made walk-in complaints and also accounts for some overlap with future walk-in levels (an overlap that will continue to increase as customers within the scope of proactive engagement pursuant to the Past Business Review make walk-in complaints before they are contacted by CYBG Group). CYBG Group has assumed an estimated response rate of 40 per cent. compared to the industry wide response rate of 35 per cent., as set out in the FCA's Thematic Review 14/14 "*Redress for payment protection insurance (PPI) mis-sales*" ("**TR 14/14**"). For each 1 per cent. change in the estimated Past Business Review response rate, CYBG Group estimates that provisions would change by approximately £5 million.

CYBG Group has conducted sampling exercises of limited sets of historical data, which indicated that customers purchased between two and three PPI policies on average. In many cases, CYBG Group sold multiple PPI policies to the same customer over time.

Based on historical data, CYBG Group estimates that it earned approximately £1 billion in gross written premiums (net of refunds) between the mid-1970s and 2011 (approximately 80 per cent. of which was single premium personal loan PPI with the remainder comprising regular premium personal loan PPI, credit card PPI, mortgage PPI and a small amount of asset finance PPI), as compared to total gross written premiums generated in the UK retail banking sector from PPI sales of approximately £44 billion between 1990 and 2010 based on the TR 14/14. Historical datasets for PPI, in a number of cases, contain elements of missing data and are generally more difficult or impossible to analyse with the accuracy which can be applied to more recently stored data and records. Consequently, estimates of gross written premium and average number of policies per customer are subject to more uncertainty and subject to more assumptions than more recent financial and operational data.

3.10.3.2 *Remediation for PPI*

Prior to the introduction of the revised PPI complaints handling policy, CYBG Group had processed and closed approximately 180,000 PPI walk-in complaints as at the end of July 2014 out of 226,000 total walk-in complaints received to 30 September 2015. CYBG Group is reassessing approximately 180,000 previously closed walk-in complaints for potential remediation. In 2015, CYBG Group raised a provision of £270 million, which was unutilised as at 30 September 2015, to remediate these prior walk-in complaints.

CYBG estimates that in approximately 60 per cent. of cases reviewed, it will either provide redress in cases where redress was previously not offered or provide additional redress to that provided when the relevant complaint was previously closed. For each 1 per cent. change in the estimated remediation rate of 60 per cent., CYBG Group estimates that provisions would change by approximately £8 million. This sensitivity assumes that the cases to be remediated are cases where redress was previously not offered and customers are therefore redressed in full.

3.10.3.3 *Costs to do for PPI*

Costs to do for PPI related matters reflect total costs of dealing with customer complaints including the necessary work to review CYBG Group's extensive records and files dating back over more than 30 years and across a number of different products in order to establish whether a complainant had or held a policy and/or multiple policies. These costs also include costs related to investigating complaints raised by or on behalf of complainants who turn out not to have been sold a PPI policy.

The provision for costs to do is based on CYBG Group's past experience and future expectations and is reviewed regularly and revised as necessary. These costs cover PPI related matters and vary across each of the Past Business Review, remediation and walk-in redress exercises.

The costs for remediation have been calculated in conjunction with a third-party outsourcing provider experienced in this area. The unutilised provisions remaining of £203 million, as at 30 September 2015, for costs to do represent CYBG Group's best estimate for future cost of handling and processing complaints in respect of walk-ins, remediation and the Past Business Review.

As at 30 September 2015, CYBG Group had two sites, one in Glasgow and one in Reading, with approximately 1,450 FTEs, including outsourced providers, dealing with PPI complaint handling (of these 312 FTEs are CYBG Group employees, the cost of which are also included in the provision). CYBG Group is establishing a third site near London to further support remediation and the Past Business Review, the site management and staff training costs for which are already included within the cost to do provision. CYBG Group provides weekly operational updates to the Board and regulators on its PPI operations.

3.10.4 *Capital Support*

On 2 December 2015, NAB and the Company entered into the Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide the Company with the Capped Indemnity in respect of certain historic liabilities relating to Relevant Conduct Matters. Claims may be made by the Company under the Capped Indemnity at such time as any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter.

At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will take responsibility £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement, with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015.

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Relevant Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date.

Based on current IFRS and CYBG Group's current accounting policies, CYBG Group expects that at such time after Demerger and prior to the termination of the Capped Indemnity as Clydesdale Bank (or another subsidiary within CYBG Group) establishes a new provision or increases an existing provision (a "**New Provision**") for a Relevant Conduct Matter in an amount that is covered in full by the Capped Indemnity, subject to the Loss Sharing Arrangement, (i) Clydesdale Bank (or a subsidiary company within CYBG Group) would record a charge to its income statement and a reduction to its capital resources in an amount equal to the New Provision in the Company's financial statements, (ii) CYBG Group would submit a claim to NAB under the Capped Indemnity to recover an amount (the "**NAB Loss Share**") equal to the New Provision, less the amount of the New Provision required to be borne by CYBG Group under the Loss Sharing Arrangement, and at such time the Company would record in its balance sheet a reimbursement asset of an amount equal to the NAB Loss Share of the New Provision payable to CYBG Group under the Capped Indemnity, and a reduction in the investment in subsidiary undertakings in the Company's balance sheet. At the consolidated CYBG Group level, (i) with respect to the NAB Loss Share of the New Provision, there would be no net impact on the income statement and no impact on retained earnings in the CYBG Group consolidated financial statements and (ii) with respect to the portion of the New Provision required to be borne by CYBG Group under the Loss Sharing Arrangement (the "**CYBG Loss Share**"), there would be a charge to the income statement and a reduction in capital resources in an amount equal to the CYBG Loss Share in the CYBG Group consolidated financial statements.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities, being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and (iii) provisions of £20 million for other conduct related matters. The support provided by the Capped Indemnity, in addition to the £986 million in unutilised provisions remaining as at 30 September 2015, provides total cover for conduct costs of £2.1 billion (without taking account of the Loss Sharing Arrangement).

In order to align the interests of NAB and the Company with respect to any such claim, the Company will be responsible under the Loss Sharing Arrangement for a fixed percentage, expected to be 9.7 per cent., of the relevant conduct liabilities forming part of the relevant provision or increase, with NAB being responsible for the remainder. The Company's Loss Share reflects the proportion of any liability in respect of a Relevant Conduct Matter that £120 million bears to the Capped Indemnity Amount plus £120 million as at the Demerger Date.

For a summary of the Conduct Indemnity Deed, see: Part 2: "*Information on CYBG Group – Conduct*".

4. Insurance Intermediary Business

On 30 September 2015, CYBG Group acquired the Insurance Intermediary business from NAB. The Insurance Intermediary business, operated through CYBIL, acts as an intermediary for a number of third-party providers of insurance and investment products, specialising in home insurance, motor insurance and personal lines. CYBG Group distributes these products through its retail mortgage and retail banking advisors to customers in the United Kingdom. The Insurance Intermediary business includes the right to collect trail commission from various investment products written before 2009 and earns commission on the sale of certain other insurance products.

The acquisition of the Insurance Intermediary business was made pursuant to a sale and purchase agreement entered into by NAB and Clydesdale Bank on 30 September 2015. Pursuant to the sale and purchase agreement, NAB agreed to sell its entire shareholding in CYBIHL, which holds the Insurance Intermediary business, for a consideration of £4.1 million to Clydesdale Bank.

As at 30 September 2015, the Insurance Intermediary business had total tangible assets of £8 million and total liabilities of £4 million.

The following table sets out selected income statement data for the Insurance Intermediary business for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Total income	**22**	**23**	**31**	**41**
Operating and administrative expenses	(6)	(8)	(9)	(11)
Underlying profit before tax	**16**	**15**	**22**	**30**
Tax	(3)	(3)	(5)	(8)
Profit after tax	**13**	**12**	**17**	**22**

The results for the Insurance Intermediary business set out above comprise the gross income and expenses of the business, which includes an expense for existing income share arrangements with CYBG Group of £5 million in the financial year ending 30 September 2015 (2014: £6 million, 2013: £7 million, 2012: £10 million). Accordingly, the impact to CYBG Group's results arising from the consolidation of the Insurance Intermediary business would have been additional income of £17 million in the year ending 30 September 2015 (2014: £17 million, 2013: £24 million, 2012: £31 million), additional operating expenses of £1 million (2014: £2 million, 2013: £2 million, 2012: £1 million), and a tax charge of £3 million (2014: £3 million, 2013: £5 million, £2012: £8 million). For additional information, see Part 14: "*Additional Information – Material Contracts – Insurance Intermediary Business Sale and Purchase Agreement*".

5. Basis of Preparation

The financial information contained in this Operating and Financial Review is based on the Historical Financial Information.

The Historical Financial Information has been prepared on a historical cost basis, as modified by the revaluation of land and buildings, investment properties, derivative financial instruments, available-for-sale financial assets and certain other financial assets and liabilities held at fair value through profit or loss. Note 2 to the Historical Financial Information sets out the basis of preparation in full.

The balance sheet data in paragraph 6 below has been extracted or derived, without material adjustment, from the Historical Financial Information. The legacy CRE portfolio was reported in assets held for sale as at 30 September 2012. As a result, there is no Management Basis of presentation applicable to the balance sheet data in paragraph 6 below.

The consolidated income statement data in paragraph 7.1 below has been extracted from the Historical Financial Information. The consolidated income statement data in paragraph 7.2 below is presented on the Management Basis, and has, unless otherwise specified, been extracted or derived, without material adjustment, from the Historical Financial Information. The Directors believe that the Management Basis provides useful supplemental information to assist in evaluating the operating performance of CYBG Group's business during the period under review. The Management Basis information includes adjustments to present items that the Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the Historical Financial Information to the Management Basis information presented in paragraph 5 of Part 4: "*Selected Financial and Other Information*". These adjustments are discussed in paragraph 7.9 of this Part 5 and CYBG Group's underlying results of operations on the Management Basis are discussed in paragraphs 7.2 to 7.8 and paragraph 7.10 of this Part 5. See "*Important Information – Presentation of certain financial and other information – Non-IFRS financial information – Management Basis*" for further information.

6. Financial Position

6.1 *Selected Assets*

The following table sets out selected assets of CYBG Group as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Assets				
Customer loans[(1)]	28,783	27,696	26,424	27,575
Cash and balances with central banks	6,431	5,986	6,720	7,927
Investments – available for sale[(2)]	1,462	1,168	975	1,041
Due from related entities	786	1,487	1,390	1,256
Defined benefit pension assets	52	49	—	—
Accrued interest receivable on customer loans	80	92	81	101
Assets held for sale[(3)]	—	—	—	5,225
Other assets	1,111	914	1,158	1,257
Total assets	**38,705**	**37,392**	**36,748**	**44,382**

(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable) as presented in the Historical Financial Information.

(2) Investments classified as available for sale principally consist of UK Government gilts that are held for liquidity management purposes.

(3) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions, which CYBG Group transferred to NAB in October 2012.

As at 30 September 2015, the net tangible assets of CYBG Group were £2,728 million comprising net assets of £3,443 million less the carrying value of AT1 notes of £450 million and intangible assets of £265 million.

6.1.1 *Customer loans*

The following tables set out a breakdown of CYBG Group's customer loans as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Mortgages	20,504	18,444	16,148	15,369
Business lending	7,061	7,970	9,002	10,896
Unsecured personal lending	1,218	1,282	1,274	1,310
Customer loans	**28,783**	**27,696**	**26,424**	**27,575**
Loans and advances to customers	27,687	26,121	24,265	24,777
Other financial assets at fair value	1,092	1,570	2,155	2,791
Due from customers on acceptances	4	5	4	7
Customer loans	**28,783**	**27,696**	**26,424**	**27,575**

(a) *Mortgages*

The mortgage book comprises CYBG Group's largest asset portfolio and has had a significant impact on its overall financial performance. Since the strategic review undertaken in 2012, CYBG Group has focussed on growing the retail mortgage portfolio through all distribution channels, although the intermediary channel has contributed the most significant growth in the portfolio during the period under review. The table below sets out the composition of mortgages by interest rate type.

	As at 30 September			
	2015	2014	2013	2012
		£m		
Mortgages:				
Fixed rate	12,710	9,454	5,712	3,851
Variable rate	5,169	6,124	7,299	8,152
Tracker	2,625	2,866	3,137	3,366
Total mortgages	**20,504**	**18,444**	**16,148**	**15,369**

The mortgage portfolio increased by 11.2 per cent. from £18,444 million as at 30 September 2014 to £20,504 million as at 30 September 2015, reflecting CYBG Group's strategy to grow the mortgage book as set out in section 3.4 of this Part 5. The increase in the proportion of fixed rate mortgages has been driven by customer preference to secure low rates in a macro-economic environment where base rates are expected to increase. The increase in fixed rate mortgages was offset in part by a decrease in the tracker book, which was withdrawn from sale to the general public in 2008, except on a limited basis to CYBG Group's employees under a staff scheme, and a decrease in the variable rate mortgage portfolio. The decrease in the variable rate mortgage portfolio is mainly driven by customers switching to fixed rate mortgages and refinancing elsewhere.

The mortgage portfolio increased by 14.2 per cent. from £16,148 million as at 30 September 2013 to £18,444 million as at 30 September 2014, reflecting an increase in customer preference for fixed rate mortgages and reductions in the variable and tracker portfolios for the reasons discussed above.

The mortgage portfolio increased by 5.1 per cent. from £15,369 million as at 30 September 2012 to £16,148 million as at 30 September 2013. The increase was primarily due to an increase in the fixed rate mortgage portfolio driven by customer preference. The increase was offset in part by the factors discussed above.

CYBG Group's mortgage book is originated through three key channels: the branch and private bank proprietary channels and the intermediary broker channel. The following table sets out the composition of CYBG Group's gross new mortgage lending by distribution channel as at the dates and for the years indicated.

	As at and for the years ended 30 September			
	2015	2014	2013	2012
		£m		
Intermediary	8,768	6,457	5,361	3,798
Branch	6,387	6,320	6,442	6,421
Private bank	3,289	3,371	3,566	3,762
Opening balance	**18,444**	**16,148**	**15,369**	**13,981**
Intermediary	3,658	3,632	2,169	2,061
Branch	879	944	713	775
Private bank	398	349	220	295
Gross new mortgage lending	**4,935**	**4,925**	**3,102**	**3,131**
Intermediary	1,516	1,321	1,073	498
Branch	972	877	835	754
Private bank	387	431	415	491
Repayments[(1)]	**2,875**	**2,629**	**2,323**	**1,743**
Intermediary	10,910	8,768	6,457	5,361
Branch	6,294	6,387	6,320	6,442
Private bank	3,300	3,289	3,371	3,566
Closing balance	**20,504**	**18,444**	**16,148**	**15,369**

(1) Repayments predominantly include capital repayments and remortgaging.

The following table sets out the composition of CYBG Group's gross new mortgage lending by distribution channel for the year ended 30 September 2015.

	Year ended 30 September 2015
	£m
Intermediary	3,658
Proprietary channels (Branch and private bank)	1,277
Branch originated[1]	669
Telephony	472
Digital (includes aggregators)	136
Gross new mortgage lending	**4,935**

(1) Represents gross new mortgage lending originated through the physical branch network for the branch and private bank proprietary channels.

Net new mortgage lending was £2,060 million for the year ended 30 September 2015 and £2,296 million for the year ended 30 September 2014. During both periods, net new mortgage lending was driven by an increase in new mortgage lending through intermediaries. The closing balance of mortgage lending through the intermediary channel increased by £2,142 million, or 24.4 per cent., to £10,910 million as at 30 September 2015 from £8,768 million as at 30 September 2014, mainly due to the ability of intermediaries to access a large base of customers across the UK including regions where CYBG Group does not have a large branch network. Growth and diversification of the mortgage book is consistent with the strategy outlined in paragraph 3.4 above. The total balance of mortgage loans extended through the branch and private bank channels decreased marginally to £9,594 million as at 30 September 2015 from £9,676 million as at 30 September 2014, with new lending offset by repayments during the period.

Net new mortgage lending was £2,296 million for the year ended 30 September 2014 compared to £779 million for the year ended 30 September 2013. This increase was primarily driven by an increase in new mortgage lending through intermediaries as discussed above. The closing balance of mortgage lending through the intermediary channel increased by £2,311 million, or 35.8 per cent., to £8,768 million as at 30 September 2014 from £6,457 million as at 30 September 2013. The total balance of mortgage loans extended through branch originated sales increased to £6,387 million as at 30 September 2014 from £6,320 million as at 30 September 2013, which reflected increased marketing activity and an increase in customer demand in line with broader market trends.

Net new mortgage lending was £779 million for the year ended 30 September 2013, compared to £1,388 million for the year ended 30 September 2012, primarily driven by a decrease in lending through the proprietary channels, mainly due to higher fixed rate maturities in the year ended 30 September 2013. For additional information on the composition of the mortgage portfolio, see paragraph 8.3: "*Mortgage Portfolio Composition*" below.

(b) *Business lending*

Business lending comprises term business loans, overdrafts and other lending, which predominantly comprises asset and invoice finance. Although business lending activity has decreased over the period under review due to strategic rationalisation, risk appetite changes and subdued market demand for credit, CYBG Group continues to provide a full range of SME banking services. The following table sets out the composition of CYBG Group's business lending portfolio by product type as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Term lending[1]	5,118	5,842	6,582	7,942
Overdrafts	1,165	1,322	1,485	1,743
Other[2]	778	806	935	1,211
Total business lending[3]	**7,061**	**7,970**	**9,002**	**10,896**

(1) Term lending includes a portfolio of individually hedged fair value term loans classified as other financial assets at fair value for reporting purposes. Other financial assets at fair value principally comprise a portfolio of fixed rate business loans and advances, in addition to products with other forms of interest rate protection such as caps and collars.

(2) Other represents working capital solutions, which comprises asset finance, invoice finance and trade finance. As at 30 September 2015, the outstanding balance of asset finance lending was £425 million, invoice finance lending was £319 million, trade finance lending was £30 million and acceptances was £4 million.

(3) Business lending does not include lending through the private bank.

Business lending decreased by 11.4 per cent. from £7,970 million as at 30 September 2014 to £7,061 million as at 30 September 2015. This decrease was primarily due to the managed reduction of the low yielding non-core business lending portfolio. The decline in the core book is showing signs of stabilising.

Business lending decreased by 11.5 per cent. from £9,002 million as at 30 September 2013 to £7,970 million as at 30 September 2014. This decrease was primarily due to net repayments across the business lending portfolio, competitive pressures, lower levels of facility utilisation and customers building higher cash balances against the backdrop of subdued demand for business credit.

Business lending decreased by 17.4 per cent. from £10,896 million as at 30 September 2012 to £9,002 million as at 30 September 2013. This decrease was primarily due to the closure of the business and private banking centres and the strategic decision to reduce business lending in 2012, CYBG Group's tightened risk appetite and the subdued demand for business credit due to conditions in the economy. For additional information on CYBG Group's business lending portfolio, see paragraph 8.4: "*Business lending portfolio composition*" below.

For the year ended 30 September 2015, total facilities accepted and available to customers for term lending was £923 million. The run-off of the low yielding term lending portfolio amounted to £682 million for the year ended 30 September 2015, with an average net interest margin of approximately 1.30 per cent. for the year ended 30 September 2015. The overall yield on business lending continued to reduce in 2015, primarily due to tightened business lending risk appetite, strong competition in the market keeping new business lending interest rates low and existing business rolling over onto lower rates. During the period under review, the business lending book had a higher yield in selected working capital solutions products than it did for term lending.

For the year ended 30 September 2015, total facilities accepted and available to customers for overdraft lending was £430 million, asset finance lending was £404 million, invoice finance lending was £169 million and treasury and trade finance lending was £10 million.

(c) *Unsecured personal lending*

CYBG Group's unsecured personal lending book comprises personal loans, credit cards and overdrafts originated by CYBG Group through branches or by way of digital or other direct channels. In 2012, CYBG Group introduced a web-based direct loan product on proprietary websites and online aggregator sites to increase unsecured personal lending. The following table sets out a breakdown of CYBG Group's unsecured personal lending balances as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Unsecured personal lending:				
Personal Loans	763	824	756	730
Credit cards	376	364	396	436
Overdrafts	79	94	122	144
Total unsecured personal lending	**1,218**	**1,282**	**1,274**	**1,310**

The following table sets out the composition of CYBG Group's gross new personal loans as at the dates indicated.

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Digital	131	293	245	89
Branch	124	74	86	135
Direct	60	34	64	51
Gross new personal loans	**315**	**401**	**395**	**275**

Unsecured personal lending decreased by 5.0 per cent. from £1,282 million as at 30 September 2014 to £1,218 million as at 30 September 2015. This decrease was primarily due to a net reduction of £61 million in the personal loan book from £824 million as at 30 September 2014 to £763 million as at 30 September 2015. The reduction in personal loans was driven by a significant reduction in gross new lending through digital from £293 million for the year ended 30 September 2014 to £131 million for the year ended 30 September 2015. During the year, competitive pressures periodically drove "Best Buy" pricing through competitive aggregators to levels where risk adjusted margins were unattractive and CYBG Group choose not to compete. However, CYBG Group implemented a pricing policy to align prices across channels, which has led to increases in new business through the proprietary channels. The reduction in personal loans was partly offset by growth in credit card lending following the launch of CYBG Group's new "Gold" proposition.

Unsecured personal lending increased by 0.6 per cent. from £1,274 million as at 30 September 2013 to £1,282 million as at 30 September 2014. The increase in volumes was primarily due to the success of the direct web-based personal loan platform, which was launched in February 2012 and which enabled CYBG Group to access a national client base, with different demographics and different customer needs, outside of its core regions, while demonstrating CYBG Group's ability to successfully launch a new product.

Unsecured personal lending decreased by 2.7 per cent. from £1,310 million as at 30 September 2012 to £1,274 million as at 30 September 2013. This decrease was primarily due to reductions in overdraft and credit card balances reflecting changes in customer behaviour in response to general economic uncertainty, offset in part by growth in personal loan balances following the 2012 launch of the web-based direct loan product.

6.2 *Selected Liabilities*

The following table sets out selected liabilities of CYBG Group as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Liabilities				
Customer deposits[(1)]	26,349	23,989	24,266	26,528
Bonds and notes	3,766	3,453	3,085	3,187
Notes in circulation	1,791	1,831	1,709	1,567
Due to related entities	998	2,677	3,036	7,716
Provisions	1,006	952	315	292
Accrued interest payable on customer deposits	125	175	212	236
Retirement benefit obligations	4	4	202	306
Other liabilities	1,223	1,773	1,474	1,931
Total liabilities	**35,262**	**34,854**	**34,299**	**41,763**

(1) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable) as presented in the Historical Financial Information.

6.2.1. *Customer deposits*

During the period under review, CYBG Group has actively managed its deposit liabilities by successfully increasing the balance of its lower-cost current accounts and savings accounts, while reducing the balances of more expensive fixed rate term deposits and other wholesale deposits. The following tables set out a breakdown of total customer deposits as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Personal deposits[1]				
Current accounts				
Interest-bearing demand deposits	6,865	6,426	5,840	5,420
Non-interest-bearing demand deposits	79	88	98	82
Total current accounts	6,944	6,514	5,938	5,502
Variable rate savings accounts	6,013	4,434	3,891	3,381
Fixed rate term deposits	4,519	4,412	5,231	6,603
	17,476	15,360	15,060	15,486
Business deposits:				
Current accounts				
Interest-bearing demand deposits	4,131	3,756	3,677	3,691
Non-interest-bearing demand deposits	1,907	1,761	1,589	1,555
Total current accounts	6,038	5,517	5,266	5,246
Variable rate savings accounts	1,777	1,731	1,870	1,853
Fixed rate term deposits[2]	964	1,262	1,690	3,319
	8,779	8,510	8,826	10,418
Other wholesale deposits	94	119	380	624
Total customer deposits	**26,349**	**23,989**	**24,266**	**26,528**

(1) Personal deposits include deposits through private banking.

(2) Business fixed rate term deposits include other financial liabilities at fair value.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Due to customers	26,282	23,901	24,146	26,381
Other financial liabilities at fair value	67	88	120	147
Total customer deposits	**26,349**	**23,989**	**24,266**	**26,528**

Customer deposits increased by £2,360 million, or 9.8 per cent., to £26,349 million as at 30 September 2015 from £23,989 million as at 30 September 2014, primarily as a result of an increase in personal deposit balances of £2,116 million, or 13.8 per cent., to £17,476 million as at 30 September 2015, from £15,360 million as at 30 September 2014. CYBG Group made the decision to grow customer funding during the first half of the year ending 30 September 2015, in order to provide funds for the continuing mortgage growth, to fund the redemption of secured funding and to reduce the level of NAB funding in advance of the Demerger. The majority of the growth was in variable rate cash ISAs, due to their relatively attractive pricing compared to other instant access savings accounts. The growth in variable rate cash ISAs was in part due to the timing of RMBS issuances. CYBG Group issued two tranches of RMBS in August 2015. Personal current accounts also increased by £430 million, or 6.6 per cent., to £6,944 million as at 30 September 2015 from £6,514 million as at 30 September 2014, in part due to customers holding higher balances in current accounts in a low interest rate environment, in addition to CYBG Group's £150 current account switching bonus offered to new customers. Deposit balances from business customers have increased, from £8,510 million at 30 September 2014 to £8,779 million at 30 September 2015, reflecting continued growth in business current accounts. The back book of fixed rate term deposits, including CYBG Group's offshore business in Guernsey, which formally closed on 30 September 2015, has continued to run-off.

Customer deposits decreased by £277 million, or 1.1 per cent., to £23,989 million as at 30 September 2014 from £24,266 million as at 30 September 2013, primarily due to a decrease in term deposits and other wholesale deposits, largely offset by increases in interest-bearing and non-interest-bearing current accounts. Funding provided by personal current accounts increased by £576 million, or 9.7 per cent. to £6,514 million as at 30 September 2014 from £5,938 million as at 30 September 2013, primarily driven by changes in customer behaviour with customers holding higher current account balances in response to falling market rates of interest on savings products. Personal variable rate savings account balances increased by £543 million, or 14.0 per cent. over the same period, which included a substantial increase in ISA balances due to attractive pricing.

Customer deposits decreased by £2,262 million, or 8.5 per cent., to £24,266 million as at 30 September 2013 from £26,528 million as at 30 September 2012, primarily due to reductions in both business and personal term deposits, partially offset by an increase in personal current accounts as discussed above. Term deposits decreased during the period in line with the decision to run-off this book of higher-rate deposits in order to achieve a lower cost customer funding position. Personal current accounts increased by £436 million, or 7.9 per cent., to £5,938 million as at September 2013 from £5,502 million as at 30 September 2012 and personal variable rate savings accounts increased by £510 million, or 15.1 per cent., over the same period.

6.2.2 *Bonds and notes*

Bonds and notes comprise secured debt securities issued to third parties (other than NAB and NAB-related entities) in the form of RMBS and covered bonds. See Part 14: "*Additional Information – Funding Programmes*" for additional information. CYBG Group securitises a proportion of its retail mortgage loan portfolio under CYBG Group's master trust securitisation programmes. The securitised mortgage loans form part of CYBG Group's medium term funding and have been assigned at principal value to bankruptcy remote structured entities. Total bonds and notes as presented in this paragraph do not include bonds and notes issued to NAB and NAB-related entities. For a discussion of bonds and notes issued to NAB and NAB-related entities, see paragraph 6.2.3 of this Part 5: "*Operating and Financial Review*". The following table sets out CYBG Group's bonds and notes as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
RMBS	3,017	2,421	2,039	2,094
Covered bonds	697	1,097	1,096	1,096
	3,714	3,518	3,135	3,190
Fair value hedge adjustments	38	(85)	(64)	(27)
Total securitised notes and covered bonds	3,752	3,433	3,071	3,163
Accrued interest payable	14	20	14	24
Total bonds and notes	**3,766**	**3,453**	**3,085**	**3,187**

Bonds and notes increased by £313 million, or 9.1 per cent., to £3,766 million as at 30 September 2015 from £3,453 million as at 30 September 2014. This was primarily due to new issuances of €550 million and £275 million of Lanark 2014-2 RMBS in December 2014 and £300 million and €280 million of Lanark 2015-1 RMBS in August 2015. This was partially offset by the maturity of Lanark 2012-1 RMBS in May 2015 for the principal amount of £327 million, the redemption of the £400 million floating rate covered bond (2012-1) in June 2015, and the amortisation of bonds and notes already in issue.

Bonds and notes increased by £368 million, or 11.9 per cent., to £3,453 million as at 30 September 2014 from £3,085 million as at 30 September 2013, primarily due to the issuance of Lanark 2014-1 RMBS of €300 million and £350 million in March 2014 offset by the impact of amortisation and hedge adjustments of earlier Lanark RMBS issuances.

Bonds and notes decreased by £102 million, or 3.3 per cent., to £3,085 million as at 30 September 2013 from £3,187 million as at 30 September 2012, primarily due to the maturity of £650 million in aggregate principal amount of notes issued in 2007 and amortisation of other outstanding notes. The decrease was partially offset by the issuance of £350 million and $300 million of Lanark RMBS issuances in July 2013.

(a) *Residential mortgage backed securities*

CYBG Group receives funding through the issue of RMBS to third-party institutional debt investors. CYBG Group is entitled to any residual income from the securitised vehicles after the debt obligations and senior expenses of the programmes have been met. The securitised debt holders have no recourse to CYBG Group other than to principal and interest (including fees) generated from the securitised mortgage portfolio. CYBG Group continues servicing these mortgage loans in return for an administration fee.

On 19 March 2014, €300 million and £350 million of owner-occupied RMBS were issued through the Lanark RMBS programme. On 11 December 2014, CYBG Group issued an additional €550 million and £275 million of RMBS. On 6 August 2015, CYBG Group issued £300 million and €280 million 2015-1 Lanark RMBS due to contractually mature in December 2026. As at 30 September 2015, CYBG Group had transferred £5,923 million of mortgages through securitisation arrangements that do not qualify for derecognition from the balance sheet because CYBG Group remains exposed to the risks and rewards of ownership on an ongoing basis. As at 30 September 2015, the Lanark RMBS programme amounted to £3.0 billion across 10 outstanding tranches. For additional information, see "*Funding, Liquidity and Capital Resources – Funding and Funding Strategy – Bonds and notes*" below and notes 22 and 30 in the Historical Financial Information.

(b) *Covered bonds*

A subset of CYBG Group's retail mortgage portfolio has been ring fenced and assigned to a bankruptcy remote limited liability partnership, associated with the covered bond programme, to provide a guarantee for the obligations payable on the covered bonds issued by CYBG Group. Similar to the securitisation programmes, CYBG Group is entitled to any residual income after all payment obligations due under the terms of the covered bonds and senior programme expenses have been met. On 8 June 2014, £400 million of covered bonds were repaid at their maturity.

Included within CYBG Group's loans and advances to customers was £1,475 million as at 30 September 2015 of mortgages assigned to the bankruptcy remote structured entity, Clydesdale Covered Bonds No. 2 LLP. These loans provide security for issues of covered bonds made by CYBG Group. For additional information, see "*Funding, Liquidity and Capital Resources – Funding and Funding Strategy – Bonds and notes*" and notes 31 and 36 in the Historical Financial Information.

6.2.3 *Due to related entities*

Amounts due to related entities include related party transactions such as deposits, bonds and notes (comprising buy-to-let mortgage backed securities issued under the Lannraig RMBS programme), subordinated liabilities and other payables due to entities in the NAB Group from entities in CYBG Group. During the period under review, CYBG Group substantially reduced amounts due to NAB and NAB-related entities, principally through repayment of funding provided by NAB following the transfer of the legacy CRE portfolio to NAB in October 2012. The following table sets out a breakdown of amounts due to related entities as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Subordinated liabilities	478	1,131	1,125	1,125
Deposits and funding arrangements	125	1,097	1,434	6,077
Bonds and notes	382	410	442	475
Other payables	13	39	35	39
Total amounts due to related entities	**998**	**2,677**	**3,036**	**7,716**

Amounts due to related entities decreased by £1,679 million, or 62.7 per cent., to £998 million as at 30 September 2015 from £2,677 million as at 30 September 2014, primarily driven by the repayment of subordinated liabilities, following the capital restructuring in December 2014 and a reduction in deposits and funding arrangements. Subordinated liabilities reduced to £478 million as at 30 September 2015 from £1,131 million as at 30 September 2014, primarily due to repayment of £650 million as part of the capital restructuring. The balance also reduced due to the maturity of a historical structured funding deal of £312 million on 1 July 2015 and reductions in the amount of funding and liquid assets that NAB placed with CYBG Group overnight as part of NAB's overall balance sheet management.

Amounts due to related entities decreased by £359 million, or 11.8 per cent., to £2,677 million as at 30 September 2014 from £3,036 million as at 30 September 2013, primarily due to a reduction in excess liquidity of approximately £287 million placed with Clydesdale Bank by NAB, the maturity of an intercompany repurchase transaction of £51 million in 2013 and a reduction of £31 million relating to the amortisation of the buy-to-let Lannraig mortgage securitisation programme as per the agreed pay down schedule. The buy-to-let Lannraig RMBS notes are all held by NAB.

Amounts due to related entities decreased by £4,680 million, or 60.7 per cent., to £3,036 million as at 30 September 2013 from £7,716 million as at 30 September 2012, driven by a decrease of £4,643 million in deposits, primarily as a result of CYBG Group repaying £5,084 million in deposits after the transfer of the legacy CRE portfolio from CYBG Group to NAB in October 2012.

See paragraph 10: "*Funding, Liquidity and Capital Resources*" below for further information.

6.2.4 *Provisions*

The following table sets out total provisions as at each of the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
PPI redress provision	774	515	152	108
Customer redress and other provisions[(1)]	214	413	118	58
Restructuring provision[(2)]	18	24	45	126
Total provisions	**1,006**	**952**	**315**	**292**

(1) Customer redress and other provisions comprise provisions for IRHP/FRTBL related matters and other industry and bank specific issues. Provisions raised for IRHP/FRTBL related matters were £75 million, £364 million, £36 million and £31 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively, and nil pre-2012. Other provisions include provisions in respect of legal proceedings, a number of individually less significant conduct related matters and claims arising in the ordinary course of CYBG Group's business. The charges in respect of these other provisions were £1 million, £12 million, £72 million and £26 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively. In the year ended 30 September 2013, £18 million of provisions raised in respect of other industry and bank specific issues had no income statement impact for CYBG Group due to the offset of an equivalent receivable from NAB. The provision for IRHP/FRTBL related matters also had no income statement impact for CYBG Group due to the effect of an equivalent receivable from NAB for the years ended 30 September 2014, 2013 and 2012.

(2) Restructuring provision includes surplus lease space provisions.

The table below shows movements in CYBG Group's PPI provisions raised and utilised as at and for the periods indicated.

		As at or for the year ended 30 September				
	Cumulative to 30 September 2011	**2012**	**2013**	**2014**	**2015**	**Cumulative to 30 September 2015**
			£m			
Raised						
Total raised	136	120	130	420	390	1196
Utilised						
Total utilised	34	114	86	57	131	422

The table below shows movements in CYBG Group's IRHP/FRTBL provisions raised and utilised as at and for the periods indicated.

	Cumulative to 30 September 2011	As at or for the year ended 30 September 2012	2013	2014	2015	Cumulative to 30 September 2015
			£m			
Raised						
Total raised	—	31	36	364	75	506
Utilised						
Total utilised	—	—	18	51	245	314

6.2.4.1 *PPI redress provision*

Total PPI redress provisions amounted to £774 million as at 30 September 2015, compared to £515 million as at 30 September 2014, £152 million as at 30 September 2013 and £108 million as at 30 September 2012. The increase in PPI provisions during the period under review includes amounts required for PPI redress in relation to the Past Business Review as well as the implementation of a revised PPI complaints handling process, which has resulted in increased operational and administrative costs; higher than expected levels of new complaints; increased redress payments in respect of new complaints; administrative costs associated with the FCA enforcement process; and any additional amounts that may need to be paid in respect of previously closed complaints. The number of PPI complaints received is monitored against past experience and future expectations. During the year ended 30 September 2015, £131 million of the PPI provision was utilised.

The PPI redress provision is based on a number of assumptions derived from a combination of past experiences, estimates, assumptions regarding future experiences, industry comparisons and the exercise of judgement. The provision estimate is also likely to be affected by the ongoing FCA consultation on *Plevin* and a potential time barring of PPI complaints. Accordingly, there is a risk that existing provisions for PPI customer redress may not cover all potential losses due to these factors and further provisions will need to be raised which, notwithstanding the terms of the Capped Indemnity (described above), could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

6.2.4.2 *Customer redress and other provisions*

Customer redress and other provisions account for legal and regulatory action and incorporate the costs of skilled persons, and where appropriate, other elements of administration. The most significant item covered by this provision is the provision for IRHP/FRTBL related matters of £192 million as at 30 September 2015. Prior to 30 September 2014, all provisions raised for IRHP/FRTBL related matters were matched by an equivalent receivable from NAB. In August 2015, CYBG Group recognised an income statement charge of £75 million for IRHP/FRTBL redress expense. Other provisions include amounts provided for in respect of legal proceedings, a number of individually less significant conduct related matters, and claims arising in the ordinary course of CYBG Group's business. Total customer redress and other provisions amounted to £214 million as at 30 September 2015 compared to £413 million as at 30 September 2014. The reduction in 2015 was mainly due to the utilisation of £245 million during the year ended 30 September 2015 to cover programme costs and customer acceptance of redress offered for the complaint led review of FRTBLs and the move towards completion of the Standalone IRHP and Voluntary Scope TBL reviews. Total customer redress and other provisions amounted to £58 million as at 30 September 2012, £118 million as at 30 September 2013 and £413 million as at 30 September 2014. The increase between 2012 and 2014 was driven by a number of factors relating to offers of redress, compensation, offers of alternative products and other costs.

6.2.4.3 *Restructuring provision*

Following the announcement of the results of the strategic review on 30 April 2012, a restructuring provision of £139 million was recorded, which covers redundancy payments, further property vacancy costs and associated costs. For the year ended 30 September 2012, the total restructuring charge was £149 million, with £10 million having been provided prior to the strategic review. The provision has been utilised over time as staff have left the group, properties have been exited and costs have been incurred. Of this amount, £23 million was utilised in 2012, £83 million was utilised in 2013 and £8 million was utilised in 2014. In the year ended 30 September 2015, a further £26 million was raised to further ongoing restructuring initiatives announced during the period. These additional costs were offset by the release of £9 million from the remaining balance of the provision raised in 2012. As a result, a net charge of £17 million was recorded in the income statement. In the year ended 30 September 2015, £23 million of the provision was utilised.

CYBG Group provides for committed rental expense on surplus lease space in line with the expected years' exposure on individual leases where the property is unoccupied. The level of surplus lease space increased as a result of the strategic review in 2012. The provision will be utilised over the remaining life of the leases or until the leases are assigned.

For additional information on the movement of provisions, see note 29 to the Historical Financial Information.

7. Results of Operations

7.1 *Consolidated Income Statement*

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Interest income and similar income	1,110	1,135	1,209	1,461
Interest expense and similar charges	(323)	(350)	(441)	(584)
Net interest income	**787**	**785**	**768**	**877**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	238	205	225	399
Non-interest income	**240**	**197**	**190**	**255**
Total operating income	**1,027**	**982**	**958**	**1,132**
Personnel expenses	(266)	(287)	(302)	(329)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(868)	(777)	(485)	(645)
Restructuring expenses	(17)	—	—	(149)
Total operating and administrative expenses before impairment losses	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses	**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Analysed as:				
Profit/(loss) before tax, Net gain on capital restructuring and debt buy back, Pension benefits, PPI redress expense, PPI complaint handling fine, Restructuring expenses, IRHP/FRTBL redress expense, Other conduct expenses, Separation costs and Impairment of intangible assets and goodwill	159	222	131	(464)
Net gain on capital restructuring and debt buy back	61	—	—	—
Pension scheme reforms benefit	—	—	—	130
Pension increase exchange gain	18	—	—	—
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	—	—	—
IRHP/FRTBL redress expense	(75)	—	—	—
Other conduct expenses	—	(13)	(50)	(23)
Restructuring expenses	(17)	—	—	(149)
Separation costs	(10)	—	—	—
Impairment of intangible assets and goodwill	(10)	(23)	—	(177)

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	—	8	—	9
	(225)	**(190)**	**(44)**	**(647)**

Losses on ordinary activities before tax increased to £285 million in the year ended 30 September 2015 from £234 million in the year ended 30 September 2014, mainly due to increased conduct related expenses, restructuring expenses, an increase in other operating and administrative expenses reflecting increased levels of marketing and investment, and lower fees and commission. These increased costs were offset, in part, by the net gain on capital restructuring and debt buy back and a pension increase exchange gain.

Losses on ordinary activities before tax decreased from £803 million for the year ended 30 September 2012 to £234 million for the year ended 30 September 2014, primarily due to several non-recurring items in 2012, namely impairment of intangible assets and goodwill, the impact of the CRE portfolio on the results of operations prior to its disposal on 5 October 2012 and restructuring expenses. The loss on ordinary activities before tax in 2012 was in part offset by a pension scheme reforms benefit as NAB exited the scheme as sponsoring employer. Excluding these items, underlying profit on ordinary activities before tax increased from the year ended 30 September 2012 to the year ended 30 September 2014.

Net interest income increased by £2 million in the year ended 30 September 2015 to £787 million compared to the year ended 30 September 2014, primarily for the reasons discussed in paragraph 7.5 below.

Net interest income decreased from £877 million in the year ended 30 September 2012 to £785 million in the year ended 30 September 2014, mainly due to the disposal of the legacy CRE portfolio to NAB in October 2012. Excluding the disposed CRE portfolio, net interest income decreased in 2013 to £768 million from £806 million in 2012, mainly due to lower income from hedging derivatives and lower deferred fee and lending income as a result of a reduction in business lending balances.

Non-interest income in the year ended 30 September 2015 increased to £240 million, mainly due to a gross gain on capital restructuring and debt buy-back of £63 million. Excluding this gain, non-interest income decreased to £177 million from £197 million in the year ended 30 September 2014, mainly due to lower fee and commission income primarily as a result of a revised charging structure for current account fees designed to improve the customer proposition.

Non-interest income decreased from £255 million in the year ended 30 September 2012 to £197 million in the year ended 30 September 2014, mainly due to a non-recurring pension scheme reforms benefit of £130 million in the year ended 30 September 2012, in addition to a loss of fee income from the disposed CRE portfolio. Excluding all of these items, non-interest income increased during this period due to favourable movements in fair value and hedge ineffectiveness which incorporated lower credit risk losses on the fair valued business loan portfolio, partially offset by a reduction in account fees and commissions driven by pro-active response to the regulatory backdrop and the reshaping of the book.

Total operating and administrative expenses before impairment losses increased to £1,234 million in the year ended 30 September 2015, mainly due to higher conduct charges with a further £465 million of provisions for PPI and IRHP/FRTBL related matters raised during the year (2014: £433 million), the PPI complaint handling fine of £21 million, restructuring costs of £17 million and costs incurred for separation activities of £10 million. There was also an increase in marketing and investment costs to support growth of the franchise. These impacts were partially offset by lower personnel expenses due to a one-off pension scheme gain of £18 million, a reduction in performance related remuneration and a lower charge for impairment of intangible assets.

Total operating and administrative expenses before impairment losses decreased in the year ended 30 September 2014 compared to the year ended 30 September 2012. This was mainly due to the following non-recurring items: restructuring expenses, impairment of intangible assets and goodwill and the transfer of the CRE portfolio. Excluding these items and other conduct expenses including PPI redress, total operating and administrative expenses decreased in the year ended 30 September 2014 compared to the year ended 30 September 2012, primarily due to a decrease in personnel expenses as the business sustained the benefits from its strategic restructuring activity.

Impairment losses on credit exposures in the year ended 30 September 2015 marginally increased to £78 million compared to £74 million for the year ended 30 September 2014. The impairment losses on mortgage lending in the year ending 30 September 2015 comprised an additional collective provision overlay of £8 million for losses incurred but not recognised following the conclusion of an asset quality review in 2015.

Impairment losses on credit exposures decreased from £737 million for the year ended 30 September 2012 to £74 million for the year ended 30 September 2014, primarily due to the transfer of the CRE portfolio to NAB in October 2012. Excluding impairment losses on the CRE portfolio of £564 million, impairment losses decreased by £99 million from the year ended 30 September 2012 to the year ended 30 September 2014, mainly due to an increase in lower risk mortgage lending, a decrease in higher risk business lending and improving economic conditions.

The results of operations during the period under review were impacted by several significant items that the Directors believe are non-recurring, or not otherwise indicative of the underlying performance of the business. These items comprise losses associated with the disposed CRE portfolio in 2012, conduct-related expenses, restructuring provisions and pension scheme-related benefits. In order to better understand the underlying performance of CYBG Group, these items have been reported separately. The Directors believe that the results of operations on the Management Basis provides useful supplemental information to better assess the underlying trends and business performance of CYBG Group and to facilitate more meaningful period-to-period comparisons. Accordingly, set out below is an analysis of CYBG Group's underlying results of operations on the Management Basis and an analysis of the excluded items. The Directors believe that this two part analysis provides a more complete picture of, and enables prospective investors to more fully understand, the Historical Financial Information. For additional information on the underlying results of operations on the Management Basis, see paragraphs 7.2 to 7.8 below. For further detail on the excluded items, see paragraph 7.9 below.

7.2 ***Consolidated Income Statement – Management Basis***

The consolidated income statement data in this paragraph 7.2 is presented on the Management Basis. For a description of adjustments made to the results of operations on the Management Basis and a reconciliation of the Management Basis information to the Historical Financial Information, see Part 4: "*Selected Financial and Other Information – Consolidated Income Statement Data – Reconciliation of the Historical Financial Information to the Management Basis*".

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
				(unaudited)
		£m		
Interest income and similar income	1,110	1,135	1,209	1,300
Interest expense and similar charges	(323)	(350)	(441)	(494)
Net interest income	**787**	**785**	**768**	**806**
Gains less losses on financial instruments at fair value	2	(8)	(35)	(144)
Other operating income	175	205	225	264
Non-interest income	**177**	**197**	**190**	**120**
Total operating income	**964**	**982**	**958**	**926**
Personnel expenses	(282)	(287)	(302)	(315)
Depreciation expense	(83)	(78)	(76)	(75)
Other operating and administrative expenses	(362)	(321)	(305)	(325)
Total operating and administrative expenses before impairment losses	**(727)**	**(686)**	**(683)**	**(715)**
Operating profit before impairment losses	**237**	**296**	**275**	**211**
Impairment losses on credit exposures	(78)	(74)	(144)	(173)

	Year ended 30 September			
	2015	2014	2013	2012
				(unaudited)
		£m		
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**
Pension scheme reforms benefit	—	—	—	130
PPI redress expense	(390)	(420)	(130)	(120)
PPI complaint handling fine	(21)	—	—	—
IRHP/FRTBL redress expense	(75)	—	—	—
Other conduct	—	(13)	(50)	(23)
Impairment of intangible assets	(10)	(23)	—	(36)
Impairment losses on goodwill	—	—	—	(141)
Disposed legacy CRE portfolio impact	—	—	—	(502)
Restructuring expenses	(17)	—	—	(149)
Separation costs	(10)	—	—	—
Net gain on capital restructuring and debt buy back	61	—	—	—
Pension increase exchange gain	18	—	—	—
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit/(charge)	60	44	5	156
Loss for the year	**(225)**	**(190)**	**(44)**	**(647)**
Attributable to:				
Equity holders of the parent	(225)	(198)	(44)	(656)
Non-controlling interest	—	8	—	9
	(225)	**(190)**	**(44)**	**(647)**

In the year ended 30 September 2015, underlying profit on ordinary activities before tax decreased to £159 million from £222 million in the year ended 30 September 2014. This was primarily due to a decrease in non-interest income, reflecting CYBG Group's strategy to change the current account charging structure, and an increase in marketing to support balance sheet growth and increased levels of investment. Net interest income remained relatively flat in 2015 compared to 2014, primarily due to the reductions in hedging derivative interest income largely being offset by reductions in customer funding costs.

Underlying profit on ordinary activities before tax increased from a profit of £38 million in the year ended 30 September 2012 to a profit of £222 million in the year ended 30 September 2014. The main reason for this increase was a reduction in the impairment losses on credit exposures due to an increase in lower risk mortgage lending, a decrease in higher risk business lending and improved economic conditions. CYBG Group recorded an increase in non-interest income from 2012 to 2014 as a result of the positive impact of hedge ineffectiveness and fair value movements, in part offset by a decrease in account fees and commissions which reflects a trend in the industry. CYBG Group's expense base contracted between 2012 and 2014 following the strategic review, which resulted in a reduction of CYBG Group's business banking network and CYBG Group's headcount. In the year ended 30 September 2015, CYBG Group's expense base increased, reflecting marketing activities to support balance sheet growth and franchise investment.

7.3 *Interest income – Management Basis*

Interest income and similar income comprises income on loans and advances to customers as well as loans and advances to other banks, available for sale investments, due from related entities, and other interest income. The following table sets out the components of CYBG Group's interest income on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Mortgages	647	584	545	493
Business lending	278	324	385	479
Unsecured personal lending	138	155	164	174
Total interest income on loans and advances to customers[(1)]	1,063	1,063	1,094	1,146
Other interest income[(2)]	47	72	115	154
Total interest income	**1,110**	**1,135**	**1,209**	**1,300**

(1) Represents total interest income on loans and advances to customers on the Management Basis.

(2) Other interest income comprises interest from interest rate swaps and derivative financial instruments, liquid assets and amounts due from related entities, plus income arising from the effective interest treatment of loan arrangement and commitment fees on mortgages and business loans.

CYBG Group's interest income decreased from £1,300 million for the year ended 30 September 2012 to £1,209 million for the year ended 30 September 2013, £1,135 million for the year ended 30 September 2014 and £1,110 million for the year ended 30 September 2015.

Interest income from mortgages increased from £493 million for the year ended 30 September 2012 to £647 million for the year ended 30 September 2015, as a result of an increase in average mortgage balances during the same period. The growth in the mortgage book is mainly due to an increase in mortgage lending through the intermediary channel. During the period under review, the average balances of mortgages increased from £14,617 million for the year ended 30 September 2012 to £15,698 million for the year ended 30 September 2013, £17,155 million for the year ended 30 September 2014 and £19,576 million for the year ended 30 September 2015. The average yield on mortgages declined marginally during this period as fixed rate mortgages at lower rates increased and mortgage rates in the UK market declined. Average yields on mortgage lending contracted in line with the market in 2015. During the year ended 30 September 2015, swap rates adversely affected interest income on mortgage lending. CYBG Group expects back book margin compression for mortgage lending to continue as a result of continued product switching by customers. The decline in unsecured personal lending during this period was driven by competitive pressures that were periodically driven by "Best Buy" pricing through aggregator websites to levels where the risk adjusted margins were unattractive and CYBG Group chose not to complete. The front book pricing for unsecured personal loans (defined as the weighted average of gross interest rates on loans originated for the period) was 8.67 per cent. for the year ended 30 September 2015.

CYBG Group's average balances of business lending decreased from £11,775 million for the year ended 30 September 2012 to £9,979 million for the year ended 30 September 2013, £8,337 million for the year ended 30 September 2014 and £7,339 million for the year ended 30 September 2015. Average business lending assets for the year ended 30 September 2012 have been adjusted to remove an average balance of £5,652 million of predominantly CRE assets and associated loans excluding provisions, which were transferred to NAB on 5 October 2012. There was a reduction in the average yield on business lending from 4.06 per cent. in the year ended 30 September 2012 to 3.78 per cent. in the year ended 30 September 2015, driven by competition in the market and subsequent reduction in front book margins. The average yield on the run-off of the non-core SME book was 2.39 per cent. for the year ended 30 September 2015, compared to an average yield of 3.57 per cent. on the SME front book and an average yield of 3.21 per cent. on the mortgage lending front book in the year ended 30 September 2015. As a result of the reduction in CYBG Group's capital requirements due to the run-off of SME lending, CYBG Group redeployed capital into mortgage lending and higher yielding SME lending. Interest income decreased on the average balances of business lending from £479 million for the year ended 30 September 2012 to £385 million for the year ended 30 September 2013, £324 million for the year ended 30 September 2014 and £278 million for the year ended 30 September 2015.

Other interest income reduced from £154 million in the year ended 30 September 2012 to £115 million in the year ended 30 September 2013, £72 million in the year ended 30 September 2014 and £47 million in the year ended 30 September 2015. Other interest income included Swap Income of £7 million in the year ended 30 September 2015, £35 million in the year ended 30 September 2014, £70 million in the year ended 30 September 2013 and £100 million in the year ended 30 September 2012. The decline in Swap Income in the year ended 30 September 2015 reflects an increase in the proportion of natural hedging and the reduction in swap nominal values due to a decision in December 2014 to terminate offsetting positions. The termination of legacy swaps in the year ended 30 September 2013 also resulted in higher Swap Income in comparison to the years ended 30 September 2014 and 2015 due to the accounting treatment of this item. There was also a rise in the Swap Income yield curve in the years ended 30 September 2013 and 2014 coinciding with the swap portfolio switching from predominantly receive-fixed to pay-fixed rates reflecting the run off of fixed rate term deposits and the growth in fixed rate mortgages. The reduction in Swap Income in the years ended 30 September 2013 and 2014 was also driven by market rate movements increasing the cost of hedging CYBG Group's basis risk during each of these periods compared to the year ended 30 September 2012. In addition, other interest income fell due to a reduction in income from repo transactions of £9 million in the year ended 30 September 2013.

7.4 *Interest expense – Management Basis*

Interest expense and similar charges comprise interest payable on customer deposits, due to other banks, bonds and notes and amounts due to related entities. The following table sets out the components of CYBG Group's interest expense on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Liquid liabilities	5	6	2	6
Customer deposits	196	213	307	350
Bonds and notes	82	81	75	52
Due to related entities	40	50	57	86
Total interest expense	**323**	**350**	**441**	**494**

CYBG Group's interest expense decreased from £494 million for the year ended 30 September 2012 to £441 million for the year ended 30 September 2013, £350 million for the year ended 30 September 2014 and £323 million for the year ended 30 September 2015.

During the period under review, CYBG Group has actively managed its liabilities and funding profile in order to reduce its average cost of funding, reduce the volume of funding provided by the NAB Group and diversify its sources of funding.

CYBG Group achieved a reduction in its overall average cost of funding principally by effectively managing the mix of customer deposits, in particular by significantly increasing its volumes of lower-cost current account deposits and lower-cost variable rate savings account deposits, while reducing the volume of higher-cost fixed rate term deposits. The average balance of term deposits decreased from £9,497 million in the year ended 30 September 2012 to £8,284 million in the year ended 30 September 2013, £5,975 million in the year ended 30 September 2014 and £5,500 million in the year ended 30 September 2015. The average interest rate on fixed-rate term deposits has also reduced over the period under review from 3.17 per cent. in the year ended 30 September 2012 to 2.35 per cent. in the year ended 30 September 2015, mainly due to the run-off of fixed rate term deposits raised or acquired following the 2011 credit rating downgrade. The combination of these factors has led to a decrease in interest expense paid on the average balance of term deposits from £301 million for the year ended 30 September 2012 to £261 million for the year ended 30 September 2013, £166 million for the year ended 30 September 2014 and £129 million for the year ended 30 September 2015.

The average balance of amounts due to related entities reduced from £3,777 million in the year ended 30 September 2012 to £2,919 million in the year ended 30 September 2013 reflecting CYBG Group's decision to build an independent source of operational funding. The average balance of amounts due to related entities in the year ended 30 September 2014 remained stable at £2,961 million and reduced to an average of £1,956 million for the year ended 30 September 2015. Interest expense on amounts due to related entities on the Management Basis decreased from £86 million for the year ended 30 September 2012 to £57 million for the year ended 30 September 2013, £50 million for the year ended 30 September 2014 and £40 million for the year ended 30 September 2015.

Funding from related entities has been replaced, in part by external funding through CYBG Group's RMBS programme, resulting in an increase in interest expense on bonds and notes from £52 million for the year ended 30 September 2012 to £75 million for the year ended 30 September 2013 and £81 million for the year ended 30 September 2014. Interest expense remained stable at £82 million for the year ended 30 September 2015. Although the average amount of funding through bonds and notes has increased to £3,868 million for the year ended 30 September 2015, this has been offset by a reduction in the average interest rate on bonds and notes from 2.47 per cent. in the year ended 30 September 2014 to 2.11 per cent. in the year ended 30 September 2015, as new notes have been issued at lower rates than those they replaced.

7.5 *Net interest income and net interest margin – Management Basis*

The following table sets out CYBG Group's net average interest-earning assets, net average interest-bearing liabilities, net interest income and net interest margin for the years indicated. The information is presented on the Management Basis. For further information, see "*Important Information – Presentation of certain financial and other information – Average balance sheet and interest rate data*".

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	(£m, except %)			
Average interest-earning assets	35,780	34,069	35,255	36,711
Average interest-bearing liabilities	29,985	28,847	30,053	32,038
Net interest income	787	785	768	806
Average yield on average interest-earning assets	3.10%	3.33%	3.43%	3.54%
Average rate on average interest-bearing liabilities	1.08%	1.21%	1.47%	1.54%
Net interest margin (%)(1)	2.20%	2.30%	2.18%	2.20%
Net interest spread (%)(2)	2.02%	2.12%	1.96%	2.00%

(1) Net interest margin is defined as net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(2) Net interest spread is calculated as the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-bearing liabilities were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

7.5.1 *Net interest income*

For the year ended 30 September 2015, net interest income increased by £2 million, or 0.3 per cent., to £787 million from £785 million for the year ended 30 September 2014, primarily due to reductions in interest expense, which offset the decrease in the average yield on interest-earning assets and the lower income from hedging derivatives. Average interest-bearing liabilities increased by 3.9 per cent. to £29,985 million in the year ended 30 September 2015 compared to the year ended 30 September 2014. During this period, interest expense decreased 7.7 per cent., mainly due to CYBG Group's active management of the funding mix to replace relatively expensive term deposits with current accounts and variable savings accounts. Interest income on hedging derivatives for the year ended 30 September 2015 was £8 million compared to £35 million in the year ended 30 September 2014. The reduced income reflects the reduction in volume of derivatives following a decision in December 2014 to cancel a number of offsetting hedges, resulting in a higher proportion of natural hedges. There has also been a shift in the balance in the portfolio towards pay-fixed interest rate swaps, due to the growth of fixed rate mortgages and reduction in fixed term deposits. In the year ended 30 September 2015, gross new mortgage lending of fixed rate mortgages was 91 per cent of total gross new mortgage lending and CYBG Group expects an increase in gross new mortgage lending to drive an increased proportion of fixed rate mortgage balances over time.

For the year ended 30 September 2014, net interest income increased by £17 million, or 2.2 per cent., to £785 million from £768 million for the year ended 30 September 2013. Interest expense on total average interest-bearing liabilities decreased by 20.6 per cent. in 2014, primarily due to a 36.8 per cent. decline in interest expense on term deposit liabilities as a result of CYBG Group's active deposit liability management, which led to a reduction in higher-cost term deposits while increasing current and savings accounts deposits, as well as a reduction in the average interest rate paid on new term deposits. The decrease in interest expense paid on total average interest-bearing liabilities was partially offset by a 6.1 per cent. decrease in interest income from total average interest-earning assets, primarily as a result of the decrease in interest earned on the business lending portfolio, from £385 million in 2013 to £324 million in 2014, as CYBG Group focused on growing its mortgage book and running down the lower-yielding portion of its business lending portfolio.

For the year ended 30 September 2013, net interest income decreased by £38 million, or 4.7 per cent., to £768 million from £806 million for the year ended 30 September 2012, primarily due to lower income from hedging derivatives and lower deferred fee and lending income as a result of a reduction in business lending balances. This was partially offset by a reduction in term deposit interest expense.

7.5.2 *Net interest margin*

Net interest margin on the Management Basis has remained relatively stable during the period under review. Net interest margin on the Management Basis fell to 2.20 per cent. for the year ended 30 September 2015 from 2.30 per cent in the year ended 30 September 2014, driven by the reduction in interest income on hedging derivatives. For the year ended 30 September 2015, the reduction in Swap Income contributed a 7 basis point reduction in net interest margin, compared to the year ended 30 September 2014. In addition, the mix of the balance sheet shifted towards mortgages with interest rates which were lower than higher risk business and unsecured personal lending. For the year ended 30 September 2015, movements in the asset mix (comprising total customer loans, liquid assets and amounts due from related entities) contributed a 13 basis point reduction in net interest margin, and movements in the liability mix (comprising total customer deposits, wholesale funding, bonds and notes and amounts due to related entities) contributed a 9 basis point increase in net interest margin, compared to the year ended 30 September 2014.

Net interest margin on the Management Basis increased from 2.18 per cent. for the year ended 30 September 2013 to 2.30 per cent. for the year ended 30 September 2014. The increase in net interest margin was attributable to CYBG Group's active management of the funding mix, particularly deposit liabilities which led to reduced interest expense on total average interest-bearing liabilities from £441 million for the year ended 30 September 2013 to £350 million for the year ended 30 September 2014.

Net interest margin on the Management Basis decreased from 2.20 per cent. for the year ended 30 September 2012 to 2.18 per cent. for the year ended 30 September 2013, primarily due to lower income from hedging derivatives.

Based on expectations as to interest rates and the broader macro-economic (as described in paragraph 4 of Part 2: "*Information on CYBG Group*"), and competitive environment (as described in Part 1: "*Industry Overview*"), the Directors expect, through the delivery of CYBG Group's strategy (as described in paragraph 4 of Part 2: "*Information on CYBG Group*"), net interest margin to be broadly stable in the near term with the potential for some modest widening, commensurate with current market expectations for movements in interest rates, over the five year period following Admission.

7.6 ***Non-interest income – Management Basis***

Non-interest income is primarily comprised of fair value loan movements and hedge ineffectiveness, various fee and commission income streams and other gains and losses.

Fair value loan movements and hedge ineffectiveness include the following three components:

- Ongoing hedge ineffectiveness and fair value gains and losses on derivatives held for trading represents the income statement impact of CYBG Group's interest rate and foreign exchange risk management activities (see paragraph 9 of this Part 5). It includes ineffectiveness within ongoing hedges and the gains and losses on derivatives which are not in designated hedging relationships. This figure excludes the impact of basis risk swaps, which were historically held outside designated hedging relationships and are discussed separately below.
- Fair value gains and losses on individually hedged loans represents the net fair value gains and losses associated with customer loans which are held at fair value plus the fair value gains and

losses on any related derivative financial instruments. Loans at fair value are primarily business loans which were set up with individual hedging instruments to match the interest rate features of the loans. The fair value movement also includes credit risk on those loans. CYBG Group no longer sells the individually hedged loan portfolio and thus, no longer classifies any business loans as fair value assets through profit and loss. The individually hedged loan portfolio is therefore in run-off.

- Impact of basis risk instruments not in hedging relationships relates to a specific book of basis risk swaps that were used as hedges for economic risk but not accounted for as designated hedging relationships until 2013. During the year ended 30 September 2013, and subsequent to this period, basis risk hedging has been included within designated cashflow hedging relationships.

Account fees and commissions, lending fees and card income represent fee income from customers and commissions for particular transactions and services.

The following table sets out non-interest income on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	2014	2013	2012
		(unaudited) *£m*		
Ongoing hedging ineffectiveness and fair value gains and losses on derivatives held for trading	3	6	(9)	(18)
Fair value gains and losses on individually hedged loans and related derivatives	(1)	(21)	(44)	(87)
Impact of basis risk instruments not in hedging relationships	—	7	18	(39)
Total fair value loan movements and hedge ineffectiveness	**2**	**(8)**	**(35)**	**(144)**
Account fees and commissions	120	141	162	185
Lending fees	9	8	9	13
Card income	23	23	22	23
Total fee and commission income	**152**	**172**	**193**	**221**
Margin on foreign exchange derivative brokerage	19	19	21	21
Gain on disposal of fixed assets	—	7	1	10
Other	4	7	10	12
Total non-interest income	**177**	**197**	**190**	**120**

Non-interest income reduced by £20 million, or 10.2 per cent., to £177 million for the year ended 30 September 2015 compared to £197 million for the year ended 30 September 2014. During this period, fair value loan movements and hedge ineffectiveness moved from an expense of £8 million in the year ended 30 September 2014 to income of £2 million in the year ended 30 September 2015, primarily due to a reduction in losses on loans held at fair value. All basis risk hedging instruments are recorded in cashflow hedge arrangements and, consequently, there was no separate income statement impact in the year ended 30 September 2015. In addition, fee and commission income decreased from £172 million in the year ended 30 September 2014 to £152 million in the year ended 30 September 2015, as a result of CYBG Group's strategy to reduce current account fees to improve the customer proposition. The reduction in the year ended 30 September 2015 was also due in part to the non-recurrence of a prior period sale and leaseback gain.

Non-interest income increased by £7 million, or 3.7 per cent., to £197 million for the year ended 30 September 2014 from £190 million for the year ended 30 September 2013, primarily due to a favourable variance of £27 million in fair value movements and hedge ineffectiveness in 2014. This improvement was mainly driven by reduced fair value losses associated with the portfolio of individually hedged loans which is now in run-off. The improvement in fair value loan movements and hedge ineffectiveness was in part offset by a reduction of £21 million in fees and commissions, mainly due to a reduction in business banking customers, a reduction in independent financial adviser income following the decision to close this business in 2013 and the impact of CYBG Group's strategy to reduce current account fees to improve the customer proposition.

Non-interest income increased by £70 million, or 58.3 per cent., to £190 million for the year ended 30 September 2013 from £120 million for the year ended 30 September 2012. The primary driver was a reduction in the charge associated with fair value loans and hedging ineffectiveness from £144 million in the year ended 30 September 2012 to £35 million in the year ended 30 September 2013. This improvement was offset in part by a reduction in total fee and commission income of £28 million and lower income from gains on the sale of property of £9 million. The reduction in account fees and commissions is attributed to a decrease in income from treasury solutions as a result of the IRHP review and a reduction in lending restructuring fees as a result of economic improvements.

Fair value loan movements and hedge ineffectiveness for the year ended 30 September 2012 included a charge for credit risk on customer loans held at fair value of £32 million compared to £14 million in 2013, a related £35 million one off reduction in the fair value measurement of customer loans and a £39 million adverse movement in the value of basis risk swaps. Since 2013, CYBG Group has been able to designate new basis risk swaps as effective cashflow hedging relationships. All basis risk swaps outside of effective cashflow hedging relationships had matured by 31 March 2014. As a result, the level of volatility is less likely to recur in subsequent periods.

The table below sets out a breakdown of CYBG Group's total other operating income (non-interest income less fair value loan movements and hedge ineffectiveness) on the Management Basis by product type for the years indicated, reflecting a reduction in fee income for current account fees and business lending in line with CYBG Group's strategy as discussed above.

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Current account fees	108	122	135	138
Business lending[(1)]	23	27	31	49
Foreign exchange brokerage	20	19	21	21
Credit cards	12	14	15	16
Insurance income[(2)]	5	7	12	23
Mortgages[(1)]	3	4	3	2
Total product income	**171**	**193**	**217**	**249**
Other[(3)]	4	12	8	15
Total other operating income[(4)]	**175**	**205**	**225**	**264**

(1) Business lending and mortgage product fee income is shown net of deferred fees under the effective interest rate accounting methodology.

(2) Insurance income decline between 2012 and 2014 was primarily driven by a reduction in income from Clydesdale Bank's independent financial adviser business which closed in 2013. Income generated from the Insurance Intermediary business that CYBG Group acquired on 30 September 2015 will be included in other operating income commencing in the year ended 30 September 2016.

(3) Other comprises gain on disposal of fixed assets, CYBG Group's profit on the sale of equity investments and securities, rental income and other fees.

(4) In the year ended 30 September 2012, CYBG Group received a one-off pension contribution of £130 million from NAB in respect of the defined benefit pension scheme. This amount was recognised as a one-off gain in other operating income, but has been removed from the results on the Management Basis. There are no equivalent amounts for the years ended 30 September 2015, 2014 and 2013.

CYBG Group believes that 2015 represents a normalised level of other operating income following its revision in current account terms and conditions and decline in fee income from a reduction in business lending.

7.7 *Operating and administrative expenses before impairment losses – Management Basis*

Operating and administrative expenses before impairment losses comprise personnel expenses, depreciation and amortisation expenses, other operating and administrative expenses and restructuring expenses. The following table sets out operating and administrative expenses on the Management Basis for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Personnel expenses:				
Salaries, wages and non-cash benefits	175	173	185	189
Other personnel expenses	33	42	39	41
Defined benefit pension expense	29	29	40	36
Related personnel expenses	22	22	21	23
Defined contribution pension expense	16	14	13	15
Equity based compensation	7	7	4	11
	282	**287**	**302**	**315**
Depreciation and amortisation expense:				
Amortisation of intangible assets	57	54	52	52
Depreciation of property, plant and equipment	26	24	24	23
	83	**78**	**76**	**75**
Other operating and administrative expenses:				
Other operating expenses	272	243	230	228
Other occupancy charges	38	39	42	42
Operating lease rental	32	31	32	38
Related entity recharges	20	8	1	17
	362	**321**	**305**	**325**
Total operating and administrative expenses before impairment losses	**727**	**686**	**683**	**715**

Operating and administrative expenses before impairment losses increased by £41 million, or 6.0 per cent on the Management Basis to £727 million for the year ended 30 September 2015 from £686 million for the year ended 30 September 2014. This increase was principally due to the increased levels of marketing and investment to support balance sheet growth and franchise investment which has been partly offset by the restructuring benefits which are evident in the reduction of personnel related costs. Other operating and administrative expenses increased to £362 million in the year ended 30 September 2015, reflecting an increase in spend to support CYBG Group's growth agenda and its brand, marketing and refreshed proposition, in addition to higher intercompany charges with NAB. The amount of the bank levy for the year ended 30 September 2015 was £0.8 million. The Directors expect the run rate of total operating costs in the year ended 30 September 2016 on the Management Basis to remain broadly in line with the amount of £381 million incurred in the second half of 2015 on an annualised basis (including FSCS levy) (i.e., £762 million on an annualised basis), principally as CYBG Group incurs additional costs as it establishes itself as a standalone entity and maintains a higher level of investment, partially offset by the benefits from planned restructurings.

Following the Demerger, the Company will be a standalone entity, proposed to be listed on the London Stock Exchange and the ASX, and will incur additional corporate operating costs, which CYBG Group did not incur as part of the NAB Group. These costs principally include share registry costs, company secretariat costs, and other costs. CYBG Group will also incur additional costs associated with certain corporate functions, services and internal management systems that have previously been provided by or in conjunction with NAB, such as information technology, insurance, accounting, treasury, investor relations, legal, human resources and marketing. Overall, it is estimated that these additional costs will have an incremental net impact on CYBG Group's total operating costs of between approximately £15 million and £25 million per year. These additional costs include estimated costs to be incurred under the Transitional Services Agreement between the Company and NAB, less the net corporate costs currently being recharged from NAB to CYBG Group. The effect of these additional costs, which are included in the run rate of total operating costs set forth in the preceding paragraph, should be taken into account when assessing the Company's future earnings.

CYBG Group's operating and administrative expenses increased to £686 million for the year ended 30 September 2014 from £683 million for the year ended 30 September 2013. This reflected an increase in other operating and administrative expenses due to an increase in software and systems expenditure and higher marketing costs, offset by a reduction in personnel expenses reflecting a lower average headcount of 7,150 staff in 2014 compared to 7,201 staff in 2013.

CYBG Group's operating and administrative expenses decreased to £683 million for the year ended 30 September 2013 from £715 million for the year ended 30 September 2012, primarily due to a reduction in personnel expenses as well as the favourable impact of income paid to CYBG Group for systems and services performed in relation to the legacy CRE portfolio transferred to NAB following the strategic review in 2012. The income on systems and services performed substantially offset the ongoing related entity recharge from NAB.

Following the Demerger, CYBG Group's amount of chargeable equity and liabilities is not expected to exceed £20 billion, therefore, no bank levy is expected to be charged.

7.7.1 *Personnel expenses*

Personnel expenses decreased by £5 million, or 1.7 per cent., to £282 million for the year ended 30 September 2015 from £287 million for the year ended 30 September 2014, primarily due to ongoing restructuring and optimisation to enable rightsizing and separation.

Personnel expenses decreased by £15 million, or 5.0 per cent., to £287 million for the year ended 30 September 2014 from £302 million for the year ended 30 September 2013, primarily due to net reductions in salaries, wages and non-cash benefits as a result of benefits from the restructuring initiatives announced in April 2012 and completed in 2013 and a corresponding decline in pension expenses due to a reduction in average headcount. These reductions were partially offset by additional costs that were not directly related to provisions in connection with new roles required to address conduct matters and conduct-related complaints together with growth in the Customer Experience and Marketing team.

Personnel expenses decreased by £13 million, or 4.1 per cent., to £302 million for the year ended 30 September 2013 from £315 million for the year ended 30 September 2012, primarily due to a reduction in average headcount of 947 during this period and a reduction in related costs during the year from the outcomes of the strategic review. This was partially offset by the accrual of a cash bonus provision in the year ended 30 September 2013 whereas no cash bonus was paid in 2012.

The table below sets out a breakdown of CYBG Group's personnel expenses by segment for the years indicated and demonstrates the reduction in the business and private banking headcount following the strategic restructuring of CYBG Group's business in 2012.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Business and private banking	67	65	75	96
Retail	76	80	73	74
Central and other functions	139	142	154	145
Total	**282**	**287**	**302**	**315**

7.7.2 *Depreciation and amortisation expense*

Depreciation and amortisation expense increased by £8 million during the period under review from £75 million in the year ended 30 September 2012 to £83 million in the year ended 30 September 2015, reflecting increased investment in hardware and software. For the year ended 30 September 2015, depreciation and amortisation increased to £83 million compared to £78 million for the year ended 30 September 2014, mainly as a result of additional investment to support CYBG Group's growth strategy and digitisation agenda.

7.8 ***Impairment losses on credit exposures – Management Basis***

During the period under review, CYBG Group experienced substantial reductions in impairment losses on credit exposures, mainly due to the alignment of the assets with CYBG Group's risk appetite, which has driven a decrease in impairment losses on business lending and unsecured personal lending.

Impairment losses on credit exposures increased marginally to £78 million for the year ended 30 September 2015, primarily due to an additional collective provision overlay on retail mortgages of £8 million for losses incurred but not recognised following the conclusion of an asset quality review in 2015.

Impairment losses decreased by £70 million, or 48.6 per cent., to £74 million for the year ended 30 September 2014 from £144 million for the year ended 30 September 2013, primarily due to lower losses on loans and advances to business customers. Business lending impairment losses decreased by £56 million, or 54.9 per cent., to £46 million for the year ended 30 September 2014 from £102 million for the year ended 30 September 2013, mainly due to improved asset quality, changes in CYBG Group's balance sheet composition and the improved economic environment.

Impairment losses on credit exposures amounted to £173 million for the year ended 30 September 2012, and decreased to £144 million for the year ended 30 September 2013, primarily due to a decrease in losses on business lending exposures during the period.

During the period under review, improvement in the portfolio risk profile, the reduction in business lending, positive delinquency trends, and mortgage growth, has resulted in a reduction in the level of collective provisions.

For further information, see "*Impairment Losses on Credit Exposures*" below.

7.9 *Profit/(loss) on ordinary activities before tax – Management Basis*

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Adjustments:				
Pension scheme reforms benefit	—	—	—	(130)
PPI redress expense	390	420	130	120
PPI complaint handling fine	21	—	—	—
IRHP/FRTBL redress expense	75	—	—	—
Other conduct	—	13	50	23
Impairment of intangible assets	10	23	—	36
Impairment losses on goodwill	—	—	—	141
Disposed legacy CRE portfolio impact	—	—	—	502
Restructuring expenses	17	—	—	149
Separation costs	10	—	—	—
Net gain on capital restructuring and debt buy back	(61)	—	—	—
Pension increase exchange gain	(18)	—	—	—
Underlying profit on ordinary activities before tax	**159**	**222**	**131**	**38**

Underlying profit on ordinary activities before tax increased from a profit before tax of £38 million for the year ended 30 September 2012 to £131 million for the year ended 30 September 2013 and £222 million for the year ended 30 September 2014, and subsequently decreased to £159 million for the year ended 30 September 2015 for the reasons set out below.

7.9.1 *Pension scheme reforms benefit*

In the year ended 30 September 2012, CYBG Group received a one-off pension contribution from NAB in respect of the defined benefit pension scheme upon the exit by NAB as a participating employer. This resulted in a £130 million gain recognised in other operating income, which was recorded in the income statement of CYBG Group as it had already recognised the IAS 19 liability of the scheme in full. There are no equivalent amounts for the years ended 30 September 2015, 2014 or 2013.

7.9.2 *PPI redress expense*

CYBG Group recorded PPI redress expenses of £390 million, £420 million, £130 million and £120 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively, within other operating and administrative expenses, as discussed in paragraph 3.10: "*Significant Factors Affecting Results of Operations and Financial Condition – Legacy conduct-related redress*" above.

7.9.3 *PPI complaint handling fine*

On 14 April 2015, the FCA issued a fine of £21 million against CYBG Group for failings in CYBG Group's PPI complaint handling processes between May 2011 and July 2013. As a result, CYBG Group recorded other operating expenses of £21 million relating to the PPI complaint handling fine in the year ended 30 September 2015. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.9.4. *Other conduct charges*

CYBG Group recorded other conduct charges of £13 million, £50 million and £23 million for the years ended 30 September 2014, 2013 and 2012, respectively, within other operating and administrative expenses, as discussed in paragraph: 3.10 "*Significant Factors Affecting Results of Operations and Financial Condition – Legacy conduct-related redress*" above. There is no equivalent amount for the year ended 30 September 2015.

7.9.5 *Impairment of intangible assets*

Impairment charges on intangible assets comprise impairment charges on software recorded within other operating and administrative expenses. In connection with the strategic review undertaken in 2012, CYBG Group recognised software impairment, predominantly with respect to business banking systems, of £36 million for the year ended 30 September 2012. CYBG Group recognised impairment of intangible assets of £23 million and £10 million for the years ended 30 September 2014 and 30 September 2015, respectively, following a review of the recoverable amount of capitalised software assets. There is no equivalent amount for the year ended 30 September 2013.

7.9.6 *Impairment losses on goodwill*

CYBG Group recorded an impairment loss on goodwill of £141 million within other operating and administrative expenses for the year ended 30 September 2012 in respect of CYBG Group's investment in Clydesdale Bank. This represents a reduction in the value of CYBG Group's investment in Clydesdale Bank, reflecting the results, including impairment losses, on the legacy CRE book and other restructuring costs that the business incurred in that period. CYBG Group no longer carries any goodwill in respect of Clydesdale Bank or any other subsidiary, and accordingly there have been no impairment losses on goodwill for the years ended 30 September 2015, 2014 or 2013.

7.9.7 *Disposed legacy CRE portfolio impact*

The legacy CRE portfolio was reclassified as held for sale at 30 September 2012 and was transferred to NAB at book value on 5 October 2012. The portfolio consisted of approximately £5,225 million of CRE assets and associated loans net of provisions. The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio for the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the disposed legacy CRE portfolio of £502 million. The interest expense of £90 million has been calculated by applying the contractual rates that were in place for the majority of the funding to all of the funding arrangements supporting the CRE portfolio prior to the disposal. There are no equivalent amounts for the years ended 30 September 2015, 2014 or 2013.

7.9.8 *Restructuring expenses*

CYBG Group recorded a charge of £149 million for restructuring for the year ended 30 September 2012. The provision covers redundancy payments, property vacation costs and associated enablement costs. The amounts raised were principally for the reduction of roles, the closure of 29 business and private banking centres, the relocation of nine business and private banking centres with retail branches, the closure of six back office locations, and the associated provisionable costs of delivery of these activities. CYBG Group recorded a further expense of £17 million in restructuring costs, principally for headcount reductions, in the year ended 30 September 2015. There are no equivalent amounts for the years ended 30 September 2014 or 2013.

7.9.9 *Net gain on capital restructuring and debt buy-back*

In the year ended 30 September 2015, CYBG Group had a net gain on capital restructuring and debt buy-back of £61 million, primarily relating to the December 2014 capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. The gain was a result of the repurchase of £650 million of Tier 2 subordinated liabilities at fair value. The subordinated debt was replaced with £450 million of Additional Tier 1 capital instruments. Other operating and administrative expenses included costs incurred in connection with the capital restructuring of £2 million. On 30 September 2015, CYBG Group repurchased medium-term funding of £650 million from NAB resulting in a gain of £2 million. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.9.10 *Pension increase exchange gain*

During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member may be entitled to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. This policy change resulted in a credit to the income statement of £18 million within personnel expenses. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.9.11 *IRHP/FRTBL redress expense*

In the year ended 30 September 2015, CYBG Group recorded a charge in the income statement of £75 million for IRHP/FRTBL redress. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012, as the provisions raised were offset by receivables from NAB.

7.9.12 *Separation costs*

During the year ended 30 September 2015, CYBG Group recorded a charge of £10 million for costs relating to the separation of the Company from NAB. There are no equivalent amounts for the years ended 30 September 2014, 2013 or 2012.

7.10 ***Tax (credit)/charge***

On 8 July 2015, the UK Government announced its intention to charge an 8 per cent. surcharge on profits of banks to the extent that they exceed £25 million per annum. The measure, enacted on 18 November 2015 by the Finance (No. 2) Act, will apply to accounting periods beginning on or after 1 January 2016 with transitional provisions for accounting periods that straddle that date. A decrease of 2 per cent. by 2020 in the mainstream rate of corporation tax was also enacted on 18 November 2015. As the legislative changes were not substantively enacted as at 30 September 2015, there will be a deferred tax rate change adjustment in the 2016 financial statements. The estimated impact from this adjustment of £20 million is disclosed in note 24 of the Historical Financial Information.

The tax credit to the income statement, as reported in the Historical Financial Information, increased by £16 million to £60 million for the year ended 30 September 2015 from £44 million for the year ended 30 September 2014. This was primarily due to an increased loss before tax in the year ended 30 September 2015 of £285 million, from a loss before tax of £234 million in the year ended 30 September 2014. The gross gain on capital restructuring of £61 million for the year ended 30 September 2015 was not taxable and the deduction of the AT1 perpetual capital note distribution was treated as an interest deduction in CYBI. Both deductions were partly offset by items not deductible for tax and drove the difference in the effective tax rate from the standard rate of corporation tax.

The tax credit to the income statement, as reported in the Historical Financial Information, increased by £39 million to £44 million, which comprised a current tax charge of £20 million and a deferred tax credit of £64 million, for the year ended 30 September 2014 from £5 million for the year ended 30 September 2013, mainly due to deferred tax credits on trading losses incurred in the period carried forward and capital allowances available to reduce taxable profits in a future period.

The tax credit to the income statement, as reported in the Historical Financial Information, decreased by £151 million to £5 million for the year ended 30 September 2013, primarily due to the reduction in loss on ordinary activities before tax by £754 million to £49 million for the year ended 30 September 2013 and the £141 million goodwill impairment which was non-deductible.

8. Credit Risk

Credit risk is the risk that losses may arise as a result of CYBG Group's borrowers or market counterparties failing to meet their obligations.

8.1 *Impairment Losses on Credit Exposures*

The table below sets out CYBG Group's impairment losses on credit exposures for the years indicated, and ratios of impairment charges to assets.

	Year ended 30 September			
	2015	2014	2013	2012
	(£m, except %)			
Impairment losses on credit exposures:				
Mortgages	18	6	14	10
Business lending[1]	45	46	102	134
Unsecured personal lending	15	22	28	29
Total impairment losses on credit exposures	**78**	**74**	**144**	**173**
Fair value loans	(18)	6	14	32
Total impairment losses on credit exposures including fair value loan credit risk	**60**	**80**	**158**	**205**
Impairment charge to customer loans ratio:				
Impairment charge to mortgages ratio[2]	0.09%	0.03%	0.09%	0.07%
Impairment charge to business lending ratio[3]	0.37%	0.62%	1.16%	1.41%
Impairment charge to unsecured personal lending ratio[4]	1.18%	1.70%	2.18%	2.14%
Total impairment charge to average customer loans[5]	0.21%	0.30%	0.60%	0.74%

(1) Impairment losses on credit exposures of £564 million in respect of the CRE portfolio that was disposed of on 5 October 2012 have been excluded from business lending for the year ended 30 September 2012.

(2) Impairment charge to mortgages ratio is defined as impairment charges on mortgages for a given period as a percentage of average mortgages for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average mortgages were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(3) Impairment charge to business lending ratio is defined as impairment charges on business loans plus impairment charges on other financial assets at fair value for a given period as a percentage of average business loans plus other financial assets at fair value for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of total business lending in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average business loans plus other financial assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(4) Impairment charge to unsecured personal lending ratio is defined as impairment charges on unsecured personal lending for a given period as a percentage of average unsecured personal lending for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average unsecured personal lending was calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

(5) Impairment charge to average customer loans ratio is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.

Total impairment losses on credit exposures, including fair value loans, fell during the period under review to £60 million for the year ended 30 September 2015, from £80 million for the year ended 30 September 2014, £158 million for the year ended 30 September 2013 and £205 million for the year ended 30 September 2012. The primary driver of the improvement in the year ended 30 September 2015 was the write back on fair value loans as a result of the continued reduction of the fair value loan portfolio. The key drivers in the fair value credit risk adjustment include losses or recoveries on individual loans and changes in the provisions for fair value loans held for future losses to reflect movements in credit quality and the run-off of this portfolio. The amount of £(18) million (representing a credit) for fair value loan credit risk adjustment in the year ended 30 September 2015 was primarily driven by a collective provision release resulting from the run-off of the fair value loan portfolio rather than underlying credit quality. During the period under review, the sustained low interest rates, improving macro-economic conditions, management actions to reduce exposure to higher risk sectors and customers deleveraging have contributed to the reduction in impairments. The impairment charge on mortgage lending in the year ended 30 September 2015 included an additional collective provision overlay for losses incurred but not recognised of £8 million following the conclusion of an asset quality review in 2015.

The impairment charge to customer loans ratio has improved during the period under review, driven by CYBG Group's tightened risk appetite, the improving macro-economic environment for CYBG Group's customers and the repayments and attrition on the business portfolio which, in addition to mortgage growth, has changed the shape of CYBG Group's balance sheet. The tightening of risk appetite initially occurred following the global financial crisis in 2008 and has been sustained through the period under review with a lack of appetite for CRE lending following the CRE portfolio disposal in October 2012. The risk appetite remains under regular review as the environment improves and targeted portfolio growth is supported. The asset quality of unsecured personal lending, in particular, improved partly due to improvement in the client risk profile from the launch of the direct personal lending proposition.

CYBG Group has, using a financial model whose key inputs are cycle neutral probability of default ("**PD**"), loss given default ("**LGD**") and exposure at default ("**EAD**"), estimated the through the cycle ("**TTC**") expected loss on its non defaulted customer loan portfolio as at 30 September 2015 over a one year time horizon at approximately 30 basis points. The PD/LGD/EAD model inputs are based on internal models that have not been subject to any external validation process. No assurance can be given that future losses on, or future impairment charges with respect to, CYBG Group's total customer loan portfolio, which changes over time and which includes non-defaulted and defaulted customers loans, will not exceed the TTC expected loss set forth herein.

The following tables set out CYBG Group's impairment provisioning on customer loans as at each of the dates indicated.

	Customer loans	**Impaired loans**	**Impaired loans as a % of closing advances**	**Total impairment provisions**[(1)]	**Specific impairment provisions as a % of impaired loans**[(2)]
	(£m)		*(%)*	*(£m)*	*(%)*
At 30 September 2015					
Mortgages	20,504	66	0.32%	39	33.3%
Business lending[(3)]	7,061	197	2.79%	206	41.1%
Unsecured personal lending	1,218	—	—	23	—
Total gross lending	**28,783**	**263**	**0.91%**	**268**	**39.2%**
Impairment provisions	268				
Total	**28,515**				

(1) Impairment provisions include the specific and collective provision balance held for customer loans.

(2) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.

(3) Business lending comprises business loans and advances to customers and other financial assets at fair value.

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions[(1)]	Specific impairment provisions as a % of impaired loans[(2)]
	(£m)		(%)	(£m)	(%)
At 30 September 2014					
Mortgages	18,444	64	0.35%	27	25.0%
Business lending[(3)]	7,970	311	3.90%	261	39.9%
Unsecured personal lending	1,282	—	—	31	
Total gross lending	**27,696**	**375**	**1.35%**	**319**	**37.3%**
Impairment provisions	319				
Total	**27,377**				

(1) Impairment provisions include the specific and collective provision balance held for customer loans.
(2) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.
(3) Business lending comprises business loans and advances to customers and other financial assets at fair value.

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions[(1)]	Specific impairment provisions as a % of impaired loans[(2)]
	(£m)		(%)	(£m)	(%)
At 30 September 2013					
Mortgages	16,148	76	0.47%	31	23.7%
Business lending[(3)]	9,002	350	3.89%	298	39.9%
Unsecured personal lending	1,274	—	—	37	—
Total gross lending	**26,424**	**426**	**1.61%**	**366**	**36.9%**
Impairment provisions	366				
Total	**26,058**				

(1) Impairment provisions include the specific and collective provision balance held for customer loans.
(2) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.
(3) Business lending comprises business loans and advances to customers and other financial assets at fair value.

	Customer loans	Impaired loans	Impaired loans as a % of closing advances	Total impairment provisions[(2)]	Specific impairment provisions as a % of impaired loans[(3)]
	(£m)		(%)	(£m)	(%)
At 30 September 2012					
Mortgages	15,369	71	0.46%	27	19.7%
Business lending[(1)(4)]	10,896	381	3.50%	310	32.3%
Unsecured personal lending	1,310	—	—	40	—
Total gross lending[(1)]	**27,575**	**452**	**1.64%**	**377**	**30.3%**
Impairment provisions[(1)]	377				
Total[(1)]	**27,198**				

(1) Business lending excludes £5,652 million of total customer loans, £564 million of impairment provisions on customer loans and £842 million of impaired loans in respect of the disposed CRE portfolio at 30 September 2012.
(2) Impairment provisions include the specific and collective provision balance held for customer loans.
(3) Specific impairment provisions as a percentage of impaired loans is defined as specific impairment provisions held on credit exposures divided by impaired loans at a given date.
(4) Business lending comprises business loans and advances to customers and other financial assets at fair value.

During the period under review, the level of impaired loans and impaired loans as a percentage of closing balances reduced. The reduction in the level of impaired loans is due to the reasons discussed above. Specific impairment provisions as a percentage of impaired loans increased by 6.6 percentage points in the year ended 30 September 2013 and thereafter have been broadly stable.

8.1.1 *Non-accrual loans*

Loans accrue interest as long as customers continue to meet the original repayment profile or an acceptable alternative repayment profile. Once an issue with repayment has been identified, the loan will be impaired, interest will stop being taken to the income statement and the level of provision required will be determined based upon the present value of expected future cash flows, including the sale proceeds from any security held. Impaired assets consist of business lending and secured personal lending where current circumstances indicate that losses of loan principal and/or interest may be incurred. Unsecured personal lending is written-off once it becomes 180 days past due and is never designated as impaired. During the period under review, the sustained low interest rates, improving macro-economic conditions, management actions to reduce exposure to higher risk sectors and customers deleveraging have contributed to the reduction in the level of non-accrual loans. The following table sets out CYBG Group's non-accrual loans to customers as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Non-accrual loans				
Amortising loans:				
Loans and advances to customers	238	319	363	343
Specific provisions	(92)	(110)	(134)	(126)
	146	209	229	217
Loans held at fair value:				
Loans and advances to customers	25	56	63	109
Specific provisions	(11)	(30)	(23)	(11)
	14	26	40	98
Total	**160**	**235**	**269**	**315**

8.2 ***Forbearance***

Exposures classified as forborne and which are non-performing when, or after, customers were granted forbearance cannot exit non-performing status for a minimum of twelve months from the date forbearance was granted, and cannot exit forbearance status for a further two years from the date of returning to performing status (three years in total). For additional information, see note 39 in the Historical Financial Information.

8.2.1 *Retail Forbearance*

Forbearance may be extended to retail customers (primarily on mortgages) when they have been identified as experiencing, or are about to experience, difficulties in meeting their financial commitments to CYBG Group. CYBG Group classifies the forbearance measures offered to retail customers into the following categories: formal arrangements, temporary arrangements, interest-only conversion, term extension, other and legal. Where a customer is subject to more than one forbearance measure, the customer is categorised into the primary method of forbearance. For a description of these forbearance categories, see note 39 in the Historical Financial Information.

The following tables set out CYBG Group's forborne mortgages as at each of the dates indicated.

As at 30 September 2015 – Retail Portfolio – Mortgage Lending

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		£m		*£m*	*%*
Formal arrangements . . .	2,115	179	0.87	4.0	2.22
Temporary arrangements	985	99	0.48	1.5	1.57
Interest-only conversion	88	12	0.06	—	0.15
Term extension	131	11	0.06	0.1	0.84
Other	11	1	0.01	—	0.39
Legal	216	23	0.11	1.5	6.56
	3,546	325	1.59	7.1	2.19

As at 30 September 2014 – Retail Portfolio – Mortgage Lending

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		£m		*£m*	*%*
Formal arrangements . . .	2,282	189	1.03	3.7	1.97
Temporary arrangements	581	49	0.27	1.1	2.24
Interest-only conversion	40	7	0.04	—	0.02
Term extension	72	6	0.03	—	0.03
Other	6	1	—	—	0.61
Legal	221	25	0.14	2.0	7.90
	3,202	**277**	**1.51**	**6.8**	**2.46**

CYBG Group currently exercises limited forbearance strategies in relation to other types of consumer credit, including current accounts, unsecured loans and credit cards. Forbearance strategies implemented on consumer credit are of low financial significance in the context of CYBG Group's overall lending operations. CYBG Group reports consumer credit forbearance at the exposure level.

8.2.2 *Non-retail Forbearance*

SBS is a division of risk management, with the responsibility for managing loans identified as being at risk of default with the aim of assisting the customer with payment options, which may include forbearance if this is in the customer's best interests. SBS is the only division that can explicitly grant non-retail forbearance. See Part 2: "*Information on CYBG Group – Banking Activities – SME Banking – Strategic Business Services*" for further information.

The following tables set out the total number of CYBG Group's non-retail forbearance arrangements in place and the loan balances and impairment provisions associated with those arrangements as at each of the dates indicated.

As at 30 September 2015 – Non-retail Portfolio

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount	% of total portfolio	Impairment allowance	Coverage
		£m		£m	%
Term extension	491	429	6.00	42.9	10.02
Deferral of contracted capital repayments	166	152	2.12	18.6	12.23
Reduction in contracted interest rate	17	29	0.40	6.8	23.64
Alternative forms of payment	3	16	0.22	4.5	28.76
Debt forgiveness	24	55	0.78	14.2	25.61
Refinancing	33	61	0.86	4.7	7.56
Covenant breach/waiver	62	166	2.32	6.0	3.64
	796	**908**	**12.70**	**97.7**	**10.77**

As at 30 September 2014 – Non-retail Portfolio

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount	% of total portfolio	Impairment allowance	Coverage
		£m		£m	%
Term extension	573	466	5.76	51.5	11.03
Deferral of contracted capital repayments	192	264	3.26	39.1	14.83
Reduction in contracted interest rate	23	17	0.20	3.4	20.34
Alternative forms of payment	11	27	0.33	12.7	47.07
Debt forgiveness	43	82	1.02	19.5	23.64
Refinancing	49	48	0.60	2.3	4.81
Covenant breach/waiver	75	297	3.67	7.6	2.55
	966	**1,201**	**14.84**	**136.1**	**11.32**

8.3 ***Mortgage Portfolio Composition***

8.3.1 *Mortgages – composition by product type*

The table below sets out the composition of CYBG Group's mortgages by product type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Owner-occupied:				
Capital repayment	9,919	9,330	8,069	7,264
Interest-only	4,167	4,201	4,575	5,001
	14,086	13,531	12,644	12,265
Buy-to-let:				
Capital repayment	755	706	572	506
Interest-only	5,663	4,207	2,932	2,598
	6,418	4,913	3,504	3,104
Total	**20,504**	**18,444**	**16,148**	**15,369**

Owner-occupied mortgages increased by 3.1 per cent. as at 30 September 2013 compared to 30 September 2012, by 7.0 per cent. as at 30 September 2014 compared to 30 September 2013 and by 4.1 per cent. as at 30 September 2015 compared to 30 September 2014. Buy-to-let mortgages increased from a lower level of exposure at a faster rate, by 12.9 per cent. as at 30 September 2013 compared to 30 September 2012, by 40.2 per cent. as at 30 September 2014 compared to 30 September 2013 and by 30.6 per cent. as at 30 September 2015 compared to 30 September 2014. The increase in buy-to-let mortgages was mainly driven by increased sales through the intermediary channel.

For the year ended 30 September 2015, the average yield for the buy-to-let mortgage portfolio was 3.60 per cent. and the average yield for the owner-occupied mortgage portfolio was 3.21 per cent.

Gross new mortgage lending in CYBG Group's owner-occupied mortgage portfolio was £2,498 million, £2,242 million, £3,092 million and £2,828 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. Of total gross new mortgage lending in the owner-occupied mortgage book, £626 million was interest-only and £2,202 million was capital repayment for the year ended 30 September 2015. Of total gross new mortgage lending in the buy-to-let portfolio, £1,924 million was interest-only and £165 million was capital repayment for the year ended 30 September 2015.

8.3.2 *Mortgages – composition by repayment type*

The table below sets out the composition of CYBG Group's mortgages by repayment type as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Capital repayment	10,674	10,036	8,641	7,770
Interest-only	9,830	8,408	7,507	7,599
Total	**20,504**	**18,444**	**16,148**	**15,369**

CYBG Group's portfolio of capital repayment mortgages increased by 11.2 per cent. as at 30 September 2013 compared to 30 September 2012, by 16.1 per cent. as at 30 September 2014 compared to 30 September 2013 and by 6.4 per cent. as at 30 September 2015 compared to 30 September 2014, reflecting CYBG Group's strategy to grow the retail mortgage book. Interest-only mortgage lending slightly decreased in the year ended 30 September 2013, by 1.2 per cent., mainly due to the run-off of interest-only mortgages for retail customers, and increased by 12.0 per cent. at 30 September 2014 compared to 30 September 2013 and by 16.9 per cent. at 30 September 2015 compared to 30 September 2014, mainly due to growth in buy-to-let mortgages where interest-only represents the predominant method of borrowing. Owner-occupied interest-only mortgages have reduced during the period under review.

8.3.3 *Mortgages – composition by region*

The table below sets out the composition of CYBG Group's mortgages by region as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	£m			
South of England[(1)]	9,842	7,849	6,367	5,662
North of England	4,921	4,878	4,723	4,664
Scotland	3,486	3,257	3,135	3,122
Midlands (England)	1,435	1,291	1,185	1,290
Other UK[(2)]	820	1,169	738	631
Total	**20,504**	**18,444**	**16,148**	**15,369**

(1) Includes mortgage lending in Greater London. As at 30 September 2015, mortgage lending in Greater London was 28 per cent. of total mortgage lending.

(2) Other UK represents Wales, Northern Ireland, Channel Islands and those new accounts where the region might be unknown until collateral matching has occurred.

CYBG Group has a diversified portfolio of secured exposures across the UK with mortgage lending predominantly in the South of England, the North of England and Scotland. Since 2012, CYBG Group has focussed on mortgage growth, particularly in London and the South of England. This has resulted in an increase in the proportion of CYBG Group's mortgage lending in London and the rest of the South of England, while mortgage lending in the North of England and Scotland has also continued to increase in absolute terms.

As at 30 September 2015, 46 per cent. of CYBG Group's intermediary mortgage lending was in London and a further 30 per cent. in the rest of the South of England, reflecting CYBG Group's growth strategy for mortgages. The remainder of the intermediary portfolio by region was 8 per cent., 6 per cent., 5 per cent. and 5 per cent. in the North of England, Scotland, the Midlands (England) and elsewhere in the UK, respectively.

8.3.4 *Loan to value ratios across the mortgage portfolios*

The average LTV ratio of retail mortgage lending, coupled with the relationship of the debt to customers' income, is key to the credit quality of these loans. The tables below set out the indexed LTV analysis of CYBG Group's retail mortgages as at the dates indicated.

At 30 September 2015	Owner-occupied	Buy-to-let	Total
Less than 50%	39	24	34
50% to 75%	43	69	51
76% to 80%	7	2	5
81% to 85%	5	1	4
86% to 90%	2	1	2
91% to 95%	1	0	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown[(1)]	3	3	3
Total	**100**	**100**	**100**
Average LTV:			
Stock of mortgages (Indexed)[(2)]	54.5%	57.2%	55.3%
Stock of mortgages (At origination)[(3)]	64.7%	68.4%	65.5%
New lending[(4)]	70.4%	67.7%	69.7%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed LTV is weighted by balance.

(3) Average LTV at origination is based on LTV calculation without any weighting.

(4) Average new lending LTV is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

At 30 September 2014	Owner-occupied	Buy-to-let	Total
Less than 50%	32	15	27
50% to 75%	42	69	49
76% to 80%	6	4	6
81% to 85%	6	2	5
86% to 90%	4	2	4
91% to 95%	2	1	1
96% to 100%	1	0	1
Greater than 100%	1	0	1
Unknown[1]	6	7	6
Total	**100**	**100**	**100**
Average LTV:			
Stock of mortgages (Indexed)[2]	57.8%	61.5%	58.8%
Stock of mortgages (At origination)[3]	63.5%	68.2%	64.4%
New lending[4]	70.1%	69.8%	70.0%

(1) Represents portion of portfolio where data is currently unavailable.
(2) Average indexed LTV is weighted by balance.
(3) Average LTV at origination is based on LTV calculation without any weighting.
(4) Average new lending LTV is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

At 30 September 2013	Owner-occupied	Buy-to-let	Total
Less than 50%	27	12	24
50% to 75%	41	59	45
76% to 80%	7	8	8
81% to 85%	6	6	6
86% to 90%	6	5	5
91% to 95%	4	3	4
96% to 100%	2	2	2
Greater than 100%	3	1	2
Unknown[1]	4	4	4
Total	**100**	**100**	**100**
Average LTV:			
Stock of mortgages (Indexed)[2]	62.6%	67.0%	63.5%
Stock of mortgages (At origination)[3]	62.3%	67.7%	63.2%
New lending[4]	63.3%	69.9%	65.2%

(1) Represents portion of portfolio where data is currently unavailable.
(2) Average indexed LTV is weighted by balance.
(3) Average original LTV at origination is based on LTV calculation without any weighting.
(4) Average new lending LTV is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

At 30 September 2012	Owner-occupied	Buy-to-let	Total
Less than 50%	24	11	21
50% to 75%	37	49	40
76% to 80%	8	12	9
81% to 85%	6	9	7
86% to 90%	6	7	6
91% to 95%	5	5	5
96% to 100%	4	3	4
Greater than 100%	5	2	4
Unknown[1]	5	2	4
Total	**100**	**100**	**100**
Average LTV:			
Stock of mortgages (Indexed)[2]	65.5%	70.5%	66.6%
Stock of mortgages (At origination)[3]	62.0%	67.5%	62.8%
New lending[4]	65.3%	66.1%	65.4%

(1) Represents portion of portfolio where data is currently unavailable.
(2) Average indexed LTV is weighted by balance.
(3) Average LTV at origination is based on LTV calculation without any weighting.
(4) Average new lending LTV is based on LTV calculation without any weighting and is based on one month's approvals (September) only.

During the period under review, the average indexed LTV of CYBG Group's mortgage portfolio has reduced to 55.3 per cent. as at 30 September 2015, compared to 58.8 per cent. as at 30 September 2014, 63.5 per cent. as at September 2013 and 66.6 per cent. as at September 2012. 4 per cent., 2 per cent., 1 per cent. and nil per cent. of CYBG Group's retail mortgage portfolio had an LTV over 100 per cent. as at 30 September 2012, 2013, 2014 and 2015, respectively, and 13 per cent., 8 per cent., 3 per cent. and 1 per cent. had an LTV over 90 per cent. as at 30 September 2012, 2013, 2014 and 2015, respectively.

The percentage of the front book mortgage portfolio with a LTV ratio below 80 per cent. was 76 per cent. and 77 per cent. for the years ended 30 September 2015 and 2014, respectively.

The intermediary and proprietary channels display similar LTV profiles, with the majority of balances having an LTV ratio under 80 per cent. The table below sets out the indexed LTV analysis of CYBG Group's retail mortgages originated through the intermediary and proprietary channels as at 30 September 2015. Average indexed LTV is weighted by balance.

At 30 September 2015	**Intermediary**	**Proprietary**	**Total**
Less than 50%	31	38	34
50% to 75%	59	42	51
76% to 80%	3	7	5
81% to 85%	3	6	4
86% to 90%	1	2	2
91% to 95%	0	1	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown(1)	3	4	3
Total	**100**	**100**	**100**

(1) Represents portion of portfolio where data is currently unavailable.

As at 30 September 2015, approximately 95 per cent. of CYBG Group's intermediary mortgages and approximately 97 per cent. of CYBG Group's buy-to-let mortgages had a LTV ratio of less than 80 per cent (percentages are calculated on the balance excluding the unknown amounts).

8.3.5 *Mortgages – LTV of gross new mortgage lending*

For the year ended 30 September 2015, 10 per cent. of CYBG Group's gross new mortgage lending had an LTV ratio of less than or equal to 50 per cent., 68 per cent. had an LTV ratio of 50 to 80 per cent., 18 per cent. had an LTV ratio of 80 to 90 per cent. and 4 per cent. had an LTV ratio of greater than 90 per cent. (percentages are calculated on the balance excluding the unknown amounts).

8.3.6 *Mortgages – greater than three months in arrears (excluding gross impaired assets)*

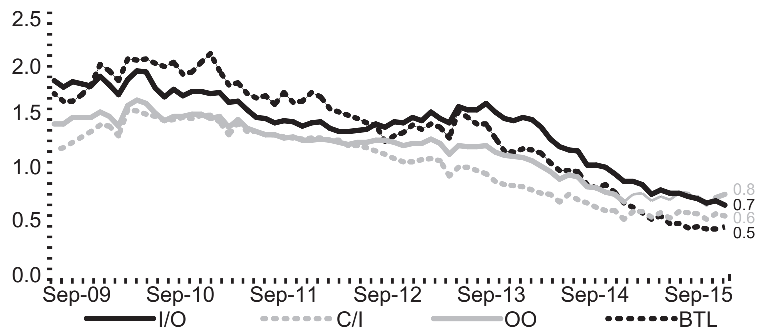
The tables below set out a breakdown of CYBG Group's mortgages greater than three months in arrears by type and by number of cases, total mortgage accounts, value of debt and total mortgage balances as at the dates indicated. This data shows a relative improvement in the key arrears metrics during the period under review, reflecting the improved economic environment, continued low interest rates, portfolio growth which may not yet be fully seasoned and prudent underwriting standards.

	Number of Cases				Total mortgage accounts			
	As at 30 September				As at 30 September			
	2015	2014	2013	2012	2015	2014	2013	2012
	(#)				(%)			
Owner-occupied	1,038	1,074	1,213	1,393	0.80%	0.83%	0.96%	1.10%
Buy-to-let	163	212	210	189	0.43%	0.63%	0.74%	0.70%
Total	**1,201**	**1,286**	**1,423**	**1,582**	**0.72%**	**0.79%**	**0.92%**	**1.03%**

	Value of debt				Total mortgage balances			
	As at 30 September				As at 30 September			
	2015	2014	2013	2012	2015	2014	2013	2012
	(£m)				(%)			
Owner-occupied	81	84	107	112	0.57%	0.62%	0.85%	0.91%
Buy-to-let	17	25	24	21	0.27%	0.50%	0.69%	0.67%
Total	**98**	**109**	**131**	**133**	**0.48%**	**0.59%**	**0.81%**	**0.87%**

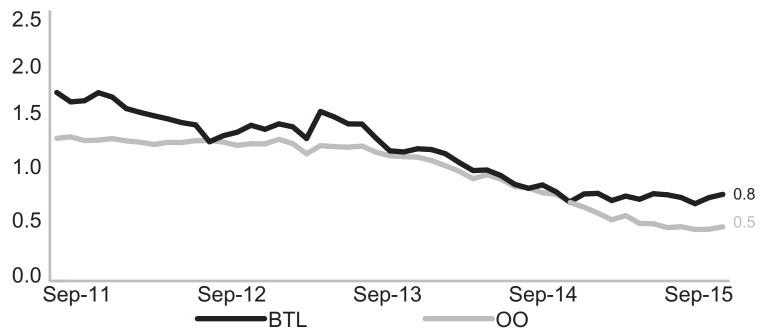
8.3.7 *Mortgages – composition by credit quality*

The graph below sets out CYBG Group's total mortgage loans more than 90 days past due plus impaired loans as a percentage of the total mortgage book for the period from September 2009 to September 2015 for the following categories: buy-to-let (BTL); owner-occupied (OO); interest-only (I/O); and capital-interest (C/I).

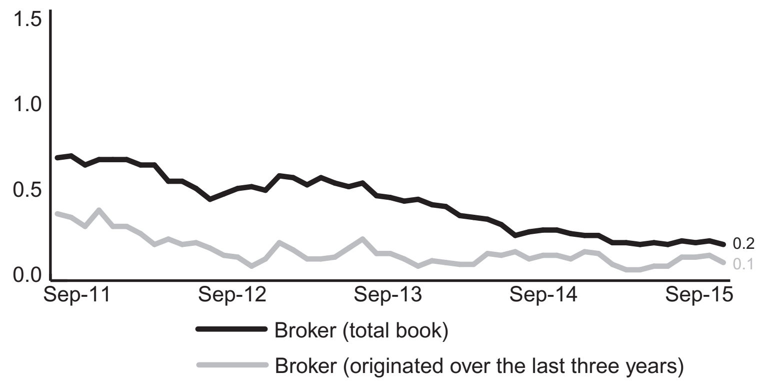


Between 2013 and 2015, the percentage of mortgage loans in default declined, reflecting improved asset quality in the mortgage portfolio across product and interest rate types. The improvement in asset quality was mainly driven by the macro-economic environment and CYBG Group's active risk management, including its manual underwriting processes, specifically in the buy-to-let mortgage book and through the intermediary channel. CYBG Group's internal risk limit for new, owner-occupied interest-only mortgage lending is set at a maximum of 25 per cent. of total gross new owner-occupied mortgage lending and is subject to change. CYBG Group's exposure to buy-to-let mortgage lending is governed by the Board approved risk appetite statement. Although buy-to-let lending is currently limited to 35 per cent. of total mortgage stock, there is no internal risk limit for buy-to-let interest-only mortgage lending, which is primarily an interest-only product offering.

The following graph sets out buy-to-let and owner-occupied mortgage loans more than 90 days past due plus impaired loans as a percentage of the total intermediary mortgage book for the period from September 2011 to September 2015 on a monthly basis. The credit quality of the buy-to-let and owner-occupied loan portfolios has improved since September 2011. The quality of CYBG Group's buy-to-let mortgage portfolio improved at a faster rate than the owner-occupied mortgage portfolio during this period. The buy-to-let portfolio experienced a 10 basis point reduction in impairments compared to the first half of the 2015 financial year.



The following graph sets out the percentage of mortgages originated through the intermediary channel that were more than 90 days past due plus impaired loans from September 2011 to September 2015 for the total book and for mortgages originated over the last three years on a rolling basis. This data is presented on a monthly basis.



8.3.8 *Gross new intermediary mortgage lending – composition by product type*

The following table sets out the composition of gross new mortgage lending through the intermediary channel by product type for the years indicated.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Buy-to-let				
Capital repayment	123	193	109	64
Interest-only	1,829	1,602	585	335
	1,952	1,795	694	399
Owner-occupied				
Capital repayment	1,092	1,346	1,018	843
Interest-only	545	465	355	699
	1,637	1,811	1,373	1,542
Unknown[1]	69	27	102	120
Total	**3,658**	**3,632**	**2,169**	**2,061**

(1) Represents portion of portfolio where data is currently unavailable.

CYBG Group's growth strategy for mortgages includes increasing buy-to-let mortgages where the target segment comprises higher net worth customers. With respect to buy-to-let mortgages, CYBG Group conducts a full credit assessment based on the customer's net income and expenditure, rather than focusing solely on rental yield. Competition in the market has shown signs of margin compression on lower LTV mortgages, which has in turn led to a reduced volume of owner-occupied written loans in the year ended 30 September 2015.

8.3.9 *Intermediary mortgage lending – LTV ratios of gross new mortgage lending*

The following table sets out the indexed LTV breakdown of CYBG Group's gross new mortgage lending through the intermediary channel for the years indicated. CYBG Group's LTV profile is primarily in the conservative 50 per cent. to 80 per cent. range.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Less than 50%	452	452	323	311
50% to 80%	2,522	2,272	1,245	1,219
80% to 90%	310	279	133	135
90% to 100%	15	25	8	18
Unknown[1]	359	604	460	378
Total	**3,658**	**3,632**	**2,169**	**2,061**

(1) Represents portion of portfolio where data is currently unavailable.

CYBG Group has taken a controlled approach with higher LTV lending. Given wider movements in the market, appetite for higher LTV lending has expanded slightly. The proprietary channel supports CYBG Group's "we care about here" campaign. Within the proprietary channel, a primary objective has always been to help first time buyers, who tend to have higher LTV mortgages, enter the property market. This has resulted in CYBG Group's continued support for customers with higher LTV mortgages through proprietary channels.

8.3.10 *Mortgages – Loan-to-income ratios*

The following table sets out the loan-to-income ratios at origination and weighted by balance for customers of CYBG Group's intermediary mortgage lending and buy-to-let mortgage lending for the year ended 30 September 2015.

Year ended 30 September 2015	**Intermediary**	**Buy-to-let**
	%	
<=2	17	26
2-3	25	24
3-4	27	19
4-4.5	11	6
>4.5	11	12
Unknown[1]	9	13
Total	**100**	**100**

(1) Represents portion of portfolio where data is currently unavailable.

The loan-to-income ratio for any particular period represents the distribution of the loan-to-income ratios for all mortgages disbursed in such period, where the loan-to-income ratio for any particular mortgage represents the ratio of the amount of credit requested under the relevant mortgage contract to the gross annual income, before tax or other deductions, of the customer(s) of such mortgage. Gross annual income can include allowable incomes as per the Responsible Lending Practice framework.

As at 30 September 2015, approximately 87 per cent. of CYBG Group's intermediary mortgages and approximately 86 per cent. of CYBG Group's buy-to-let mortgages had a loan-to-income ratio of less than 4.5 times income (percentages are calculated on the balance excluding the unknown amounts).

The following table sets out the loan-to-income ratios at origination and weighted by balance for customers of CYBG Group's total gross new mortgage lending for the year ended 30 September 2015.

Year ended 30 September 2015	Total gross new mortgage lending
	%
<=2	20
2-3	29
3-4	29
4-4.5	11
>4.5	8
Unknown[(1)]	3
Total	**100**

(1) Represents portion of portfolio where data is currently unavailable.

For the year ended 30 September 2015, 8 per cent. of CYBG Group's gross new mortgage lending had a loan-to-income ratio greater than 4.5 times income. At this level, the LTV ratio of gross new mortgage lending is capped to ensure there is no over-exposure to high loan-to-income and LTV lending. The average mortgage loan-to-income ratio at origination without any weighting for gross new mortgage lending was 2.65 times income and 2.66 times income for the years ended 30 September 2014 and 2015, respectively. The average loan-to-income ratio is based on residential approvals that have a valid loan-to-income ratio between 13 September 2013 and 14 August 2014 inclusive and 13 September 2014 and 14 August 2015 inclusive.

8.3.11 *Buy-to-let mortgage lending – Rent cover*

The following table sets out the rent cover at origination for CYBG Group's buy-to-let mortgage portfolio for the year ended 30 September 2015.

Year ended 30 September 2015	Rent cover[(1)]
	%
<=75%	2
75-100%	4
100-125%	8
125-150%	19
150-164%	67
Total	**100**

(1) Excludes loans where data is not currently available due to front book data matching still to be completed and historic data capture requirements. Rent cover is based on initial payment and any repayment.

Rental cover of 125 per cent. of the mortgage servicing costs is considered at a stressed interest rate of 7.45 per cent.

8.4 ***Business lending portfolio composition***

8.4.1 *Business lending – composition by industry sector*

The following table sets out the composition of CYBG Group's business lending portfolio by industry sector as at the dates indicated. The business lending portfolio excludes the legacy CRE portfolio, which was transferred to NAB on 5 October 2012 and included in assets held for sale as at 30 September 2012.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Agriculture (soft commodities)[(1)]	1,694	1,766	1,807	1,816
Retail & wholesale trade	810	981	1,039	1,211
Business services	735	831	960	1,241
Government, health & education	772	848	908	1,077
Manufacturing	679	788	887	1,146
Hospitality	601	745	941	1,218

	As at 30 September			
	2015	2014	2013	2012
	£m			
Commercial real estate	504	562	661	597
Entertainment & personal services	317	400	476	449
Transport & storage	279	320	356	425
Construction	194	193	210	398
Other[(2)]	476	536	757	1,318
Total	**7,061**	**7,970**	**9,002**	**10,896**

(1) Agriculture (soft commodities) comprises arable, beef or sheep, dairy, agricultural services and other.

(2) Other includes utilities, post and telecommunications, resources and finance. As at 30 September 2015, the outstanding balances of utilities, post and telecommunications was £200 million, resources was £101 million and finance was £75 million.

As at 30 September 2015, the business lending portfolio comprised 24.5 per cent. of CYBG Group's total customer loans. The portfolio is comprised of lending to businesses and has broad representation across industry sectors. Agriculture (soft commodities) represents the largest exposure by industry sector reflecting the historical expertise of CYBG Group in agricultural lending and represented 24 per cent. of CYBG Group's business lending as at 30 September 2015. Specific impairment charges for the agriculture sector were £2 million, £1 million, £1 million and £4 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The composition of the book has changed during the period under review due to reduced business lending activity. There has been selective growth within the portfolio, which is subject to a value cap, with concentration expected to reduce as other SME lending grows.

CYBG Group's primary repayment source for business lending has always been from cash flow generation through the trading business. Secondary repayment vehicles include tangible assets such as property and land. Moving forward, CYBG Group intends to focus on growing SME lending, including lending into growth sectors such as renewables and near shore marine. CYBG Group also expects to continue running off lower margin business loans.

For the year ended 30 September 2015, total business facilities accepted and available to CYBG Group's customers by sector comprised the following: £304 million (Agriculture), £296 million (Retail & wholesale trade), £310 million (Business services), £232 million (Government, health & education), £248 million (Manufacturing), £83 million (Finance), £72 million (CRE including housing associations), £59 million (Hospitality) and £331 million (other comprising transport and storage, utilities, post and telecommunications, construction and resources and entertainment and personal services).

8.4.2 *Business lending – eCRS profile*

The following table sets out CYBG Group's business lending portfolio split by eCRS rating as a percentage of the total as at the dates indicated. These ratings are based on CYBG Group's internal ratings. This table shows an improvement in the lending quality at the dates indicated. As at 30 September 2015, 38 per cent. of the portfolio was categorised as investment grade and 59 per cent. of the portfolio categorised as sub-investment grade.

	As at 30 September			
	2015	2014	2013	2012[(1)]
	%			
Investment Grade				
1 to 5	8	8	8	8
6 to 11	30	30	25	26
	38	38	33	34
Sub-Investment Grade				
12 to 16	33	32	35	37
17 to 20	20	22	23	21
21 to 23	6	3	4	4
	59	57	62	62

	As at 30 September			
	2015	2014	2013	2012[(1)]
	%			
Default				
98 and 99	3	5	5	4
	3	5	5	4
Total	**100**	**100**	**100**	**100**

(1) As at 30 September 2012, the eCRS profile of the business lending portfolio including the legacy CRE portfolio was 28 per cent. (investment grade), 63 per cent. (sub-investment grade) and 9 per cent. (default).

8.4.3 *Business lending – security status*

The following table sets out the composition of the business lending portfolio by collateral cover as at the dates indicated excluding default (eCRS 98 and 99). This table also excludes the legacy CRE portfolio, which was transferred to NAB on 5 October 2012 and included in assets held for sale as at 30 September 2012.

	As at 30 September			
	2015	2014	2013	2012[(2)]
	%			
A-D (fully secured)[(1)]	47	45	45	43
E-G (partially secured)	22	21	23	24
H-J (largely/fully unsecured)	31	34	32	33
Total	**100**	**100**	**100**	**100**

(1) Fully secured refers to the value of security (the "**bank value**") held as a percentage of facilities that are secured that is equal or greater than 100 per cent. Bank value is the value extended after deduction of a margin as contingency against realisation under adverse conditions.

(2) As at 30 September 2012, collateral cover for the business lending portfolio including the legacy CRE portfolio was 47 per cent. (fully secured), 28 per cent. (partially secured) and 25 per cent. (largely/fully unsecured).

The proportion of secured and unsecured business lending as a percentage of the overall business lending portfolio have remained relatively stable during the period under review. In line with CYBG Group's strategy, the size of the business lending portfolio has reduced evenly across all types of lending.

8.4.4 *Business lending – credit risk*

The following table sets out information on the business lending portfolio by sector as at 30 September 2015.

			% of Impaired		% of Watch		
Sector of Portfolio	% Total Business Portfolio	Average eCRS	% of Industry Sector	% Total Impaired Portfolio	% of Industry Sector	% Total Watch Portfolio	Business Impairment Charge (£m)[(2)]
Agriculture (soft commodities)	24	11.66	1	7	13	29	4
Retail & wholesale trade	12	14.33	2	8	9	10	4
Government, health & education `	11	14.16	3	10	14	14	1
Business services	11	13.48	2	8	6	6	5
Manufacturing	10	14.29	1	2	13	12	0
Hospitality	9	16.40	12	38	21	17	16
Commercial real estate	7	12.52	5	13	9	6	3[(3)]
Transport and storage	4	14.64	2	3	6	2	0
Resources	1	14.71	1	1	1	0	(1)
Other[(1)]	11	12.72	2	10	4	4	5
Total	**100**	**13.45**	**3**	**100**	**11**	**100**	**37**

(1) Other includes entertainment and personal services, utilities, post and telecommunications, construction and finance sectors.

(2) Business impairment charge is defined as impairment charge on business loans plus other financial assets at fair value.
(3) Impairment charge on CRE relates to a trading business which retained a property element within a broader exposure.

During the period under review, CYBG Group has managed its business portfolio to be well diversified in terms of sector exposure. The agriculture sector, in particular, has historically comprised a significant proportion of the portfolio given CYBG Group's extensive experience in this industry and the low risk nature of these loans. CYBG Group's long established expertise in the agriculture sector in combination with strong property values has resulted in a low level of impaired loans within the agricultural sector during the period under review. The following table sets out the composition of performing, watch and default agricultural loans as a percentage of total agriculture loans as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	%			
Performing	85	88	89	94
Watch	13	10	9	5
Default	2	2	1	1
Total	**100**	**100**	**100**	**100**

Whilst decreasing during the period under review, the hospitality sector remains the largest component of the impaired portfolio. The impairment charge for hospitality as at 30 September 2015 reflects difficulties experienced by a number of customers following the global financial crisis.

9. Interest Rate Risk

CYBG Group is exposed to interest rate risk on assets including cash and balances with central banks, available for sale investments, customer loans and derivative financial instruments and interest rate risk on liabilities including customer deposits, due to other banks, derivative financial instruments and bonds and notes. CYBG Group manages interest rate risk from both an internal management and regulatory perspective. The Risk Management Framework incorporates both market valuation and earnings based approaches in accordance with the interest rate risk in the banking book policy. Risk measurement techniques include: Value at Risk ("**VaR**"), Earnings at Risk ("**EaR**"), interest rate risk stress testing, repricing analysis, cash flow analysis, and scenario analysis. The table below sets out the value at risk and earnings at risk measurements. For information on the methodology of CYBG Group's risk measurement techniques, including VaR and EaR, see note 39 to the Historical Financial Information.

	Value at risk				Earnings at risk			
	As at 30 September				As at 30 September			
	2015	2014	2013	2012	2015	2014	2013	2012
	£m				£m			
As at 30 September	27	36	30	31	9	2	7	4
Average value during the period	25	37	32	37	5	3	9	6
Minimum value during the period	19	32	29	31	2	2	3	12
Maximum value during the period	29	48	35	45	9	8	20	13

9.1 *Management of Interest Rate Risk in the Banking Book*

The primary objective of CYBG Group's interest rate risk management strategy is to eliminate a substantial proportion of the volatility in the banking book that arises from changes in market interest rates, such as LIBOR and the Bank of England base rate. CYBG Group does not carry out trading in this respect.

CYBG Group monitors the overall fixed rate asset and liability position, to determine the natural offsets that exist within the book and calculate the "repricing gap" which represents the overall exposure to fixed interest rate assets and liabilities. Fixed interest rate exposures are swapped back to variable rates (principally three month LIBOR) using simple fixed rate to variable interest rate swap instruments.

Variable rate assets and liabilities can be linked to either LIBOR or the Bank of England base rate. At 30 September 2015, CYBG Group had more base rate assets than base rate liabilities and this surplus is typically funded at LIBOR. As a result, CYBG Group has exposure to a movement in the spread between base rate and LIBOR ("**basis risk**"). This exposure is managed through the execution of two swaps, being pay fixed rate versus the sterling overnight index average and receive fixed rate versus LIBOR.

CYBG Group's strategy to manage fixed interest rate risk and basis risk results in a net variable rate interest earning position for CYBG Group, which is funded by CYBG Group's equity and low-interest-bearing and non-interest-bearing liabilities. In order to restrict the volatility that arises from this position, CYBG Group enters into a Structural Hedge to fix the rate of return. This Structural Hedge takes the form of a rolling series of monthly hedges (being either on-balance sheet hedges or external interest rate swaps) to fix the interest rate return for assets funded by equity for two years and for assets funded by low-interest-bearing and non-interest-bearing liabilities for five years. As at 30 September 2015, approximately £7.2 billion of non- or low-interest-bearing liabilities and £3.4 billion of equity was covered by the Structural Hedge. As at 30 September 2015, assuming there was an increase of 100 basis points to the relevant rate (rolling 60 month average of the 5 year swap rate for low-interest-bearing and non-interest-bearing liabilities and the rolling 24 month average of the 2 year swap rate for capital), then CYBG Group estimates that there would be £106 million of net interest benefit realised as a saving in funding costs- all other things being equal, after taking the full impact through the duration of the hedge. The rates on receiving fixed hedges have become significantly lower during the period under review compared with the rates prior to 2012 as a result of the prolonged low interest rate environment.

9.2 ***Accounting for Derivatives***

CYBG Group uses derivatives to manage risk exposure from potential movements in interest rates, foreign exchange rates and equity exposures inherent in CYBG Group's assets, liabilities and positions. CYBG Group designates derivatives either as hedging instruments, where they are part of an effective hedging relationship as defined by accounting standards, or as held for trading.

Derivatives designated as hedging instruments include interest rate and cross currency instruments held in cash flow and fair value hedges. CYBG Group uses cashflow hedging to hedge fixed rate interest exposures arising from fixed rate mortgages, savings and other treasury assets and liabilities. Fair value hedging is used to hedge certain elements of treasury assets such as gilts, treasury funding and, prior to 2014, foreign currency debt issuances.

Derivative instruments which are not in a designated hedging arrangement are described below as held for trading. This includes instruments which are used to economically hedge a variety of risks embedded in tailored business loans, such as fixed interest, interest rate caps and collars and repayment options. Tailored business loans and related derivative instruments are held at fair value through profit and loss and movements in both balances are recorded in non-interest income.

CYBG Group only uses derivatives for risk mitigation purposes. All on balance sheet derivative instruments are held at fair value. The impact on the income statement of movements in fair value and hedging ineffectiveness is described in paragraph 7.6 of this Part 5. The table below sets out the fair value of derivative financial assets, which are designated as hedging instruments and as held for trading.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Fair value of derivative financial assets				
Designated as hedging instruments	103	13	7	197
Designated as held for trading	182	207	237	440
	285	**220**	**244**	**637**
Not included in the above:				
Assets classified as held for sale	—	—	—	(4)
Fair value of derivative financial liabilities				
Designated as hedging instruments	244	245	204	188
Designated as held for trading	290	303	447	765
	534	**548**	**651**	**953**
Not included in the above:				
Liabilities associated with assets held for sale	—	—	—	142

The gross fair value of derivative financial assets decreased by £393 million and the gross fair value of derivative financial liabilities decreased by £302 million for the year ended 30 September 2013, mainly due to the cancellation of certain fixed interest to overnight index swaps, which were classified as held for trading and which were replaced with fixed interest to LIBOR swaps in designated hedging relationships.

The derivative financial instruments held by CYBG Group are further analysed below with the notional contract amount being the amount from which the cash flows from the derivative contracts are derived. Notional contact amounts are not an indication of the amounts at risk relating to the contracts.

Total derivative contracts as at 30 September 2015	Notional contract amount	Fair value of assets	Fair value of liabilities
		£m	
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	16,655	46	75
Cross currency swaps	843	8	54
	17,498	54	129
Fair value hedges			
Interest rate swaps	1,452	35	115
Cross currency swaps	499	14	—
	1,951	49	115
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	1,990	47	38
Cross currency swaps	150	5	5
Options	273	2	2
	2,413	54	45
Interest rate related contracts			
Swaps	2,084	105	217
Swaptions	67	—	1
Options	706	1	5
	2,857	106	223
Commodity related contracts	160	22	22
Total derivative contracts	**24,879**	**285**	**534**

For additional information on CYBG Group's derivatives, see note 15 to the Historical Financial Information.

9.3 ***Related-party derivative financial instruments***

Most non-customer facing derivative transactions of CYBG Group have been executed with NAB. Derivatives include foreign exchange rate related contracts, interest rate related contracts and commodity related contracts executed in the form of swaps, spot contracts, forward contracts options and swap options. These derivatives include risk management derivatives for CYBG Group and derivatives to facilitate transactions of CYBG Group with its customers. These transactions have been entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

The derivative contracts are subject to International Swaps and Derivatives Association ("**ISDA**") Master Agreements, as well as relevant Credit Support Annexes ("**CSA**") around collateral arrangements attached to the ISDA agreements. Under the ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated and then settled on a net basis at market levels current at the time of the default. In addition, the credit risk associated derivative contracts is managed through the pledging of cash collateral by CYBG Group in line with the CSA.

As at 30 September 2015, CYBG Group had entered into the notional amount of £18.6 billion of derivative contracts with NAB on an arm's length basis. The following table sets out contractual maturities of CYBG Group's related-party derivative financial instruments as at 30 September 2015 by time period.

Time period	Notional amount	Fair value assets	Fair value liabilities	Net fair value
		£m		
0 to 1 year	7,572	62	(72)	(10)
1 to 2 years	6,277	37	(80)	(43)
2 to 5 years	2,958	7	(90)	(83)
5 to 10 years	650	6	(69)	(63)
Greater than 10 years	1,107	34	(125)	(91)
	18,564	146	(436)	(290)
CYBG off-balance sheet derivatives[1]	14,570	108	(132)	(24)
	33,134	**254**	**(568)**	**(314)**

(1) Represents specific derivative transactions between CYBG Group and NAB in respect of CYBG Group's bankruptcy remote structured entities. In accordance with accounting rules, cash flows on these derivatives are accounted for on an accruals basis in conjunction with the underlying mortgage assets to which the derivatives relate.

For further information on derivative instruments entered into with NAB, see note 15 to the Historical Financial Information.

10. Funding, Liquidity and Capital Resources

10.1 *Funding and Funding Strategy*

The table below sets out CYBG Group's main sources of funding, comprising total customer deposits, total amounts due to related entities and total bonds and notes, as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
		£m		
Customer deposits:				
Personal deposits	17,476	15,360	15,060	15,486
Business deposits	8,779	8,510	8,826	10,418
Other wholesale deposits	94	119	380	624
Customer deposits	**26,349**	**23,989**	**24,266**	**26,528**
Bonds and notes:				
RMBS	3,017	2,421	2,039	2,094
Covered bonds	697	1,097	1,096	1,096
	3,714	3,518	3,135	3,190
Fair value hedge adjustments	38	(85)	(64)	(27)
Total securitised notes and covered bonds	3,752	3,433	3,071	3,163
Accrued interest payable	14	20	14	24
Total bonds and notes	**3,766**	**3,453**	**3,085**	**3,187**
Due to related entities:				
Deposits	125	1,097	1,434	6,077
Bonds and notes	382	410	442	475
Subordinated liabilities	478	1,131	1,125	1,125
Other payables	13	39	35	39
Total due to related entities	**998**	**2,677**	**3,036**	**7,716**

10.1.1 *Customer deposits*

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. In recent years, CYBG Group has experienced strong growth in current account balances, while more expensive term deposits have significantly decreased.

CYBG Group aims to manage its balance sheet so that customer asset growth is matched with sustainable retail deposit growth, which CYBG Group monitors through the LDR. CYBG Group's LDR was 104 per cent. as at 30 September 2012, 109 per cent. as at 30 September

2013, 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015 as customer deposit growth outstripped net lending growth. The modest increase in the LDR between 2012 and 2014 reflects active management to support retail growth and reduce surplus term deposits raised in 2011 and 2012 in response to the change in CYBG Group's credit rating.

10.1.2 *Bonds and notes*

CYBG Group actively seeks to diversify its funding mix through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. CYBG Group issued £1.1 billion of external covered bonds in June 2012. In terms of external RMBS, CYBG Group issued €615 million in February 2012, $800 million and £525 million in July 2012, £350 million and $300 million in July 2013, £350 million and €300 million in March 2014, €550 million and £275 million in December 2014 and £300 million and €280 million in August 2015 through the Lanark securitisation programme. The tenor of the bonds from original issue date to their call date ranges from 3 to 14 years, which helps to provide a stable funding base for CYBG Group. As at 30 September 2015, CYBG Group had £4.7 billion of mortgage collateral available to support future RMBS and covered bond issuances.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace the existing Additional Tier 1 capital instruments and Tier 2 notes with the New AT1 Notes and the New Tier 2 Notes. See paragraph 10.3.1 below for further information.

10.1.3 *Due to related entities*

CYBG Group's funding from amounts due to related entities primarily consists of Additional Tier 1 capital instruments, secured RMBS and subordinated liabilities. During the period under review, CYBG Group has significantly reduced the extent of senior funding from the NAB Group and obtained an increasing proportion of its funding from retail deposits and secured wholesale term funding (in the form of RMBS and covered bonds).

In 2012, CYBG Group repaid intragroup funding to NAB in the amount of £5,084 million with proceeds from the disposal of the legacy CRE portfolio. In December 2013, CYBG Group redeemed £300 million of Additional Tier 1 capital. In December 2014, £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties was also redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as the introduction of a 25 per cent. capital limit under Pillar 2A. These instruments were replaced by an issue of £350 million of ordinary shares to NAB related parties and issues of Additional Tier 1 capital instruments of £450 million to NAB. Additional Tier 1 capital instruments issued to NAB amounted to £450 million as at 30 September 2015.

Amounts due to related entities include buy-to-let RMBS issued by CYBG Group to NAB through the Lannraig securitisation programme. Amounts of such securities held by NAB were £382 million as at 30 September 2015, £410 million as at 30 September 2014, £442 million as at 30 September 2013 and £475 million as at 30 September 2012.

On 24 September 2015, £465 million forming part of the £670 million total share premium was provided to CYBG Group by NAB by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity in its accounts for the year ended 30 September 2015.

As at 30 September 2015, subordinated liabilities due to NAB and NAB related entities totalled £478 million, compared to £1,131 million as at 30 September 2014, £1,125 million as at 30 September 2013 and £1,125 million as at 30 September 2012.

Total amounts due to related entities decreased to £998 million as at 30 September 2015 from £2,677 million as at 30 September 2014 and included the early repayment of senior debt of £429 million in September 2015, one year prior to contractual maturity. Total amounts due to related entities was £3,036 million as at 30 September 2013 and £7,716 million as at 30 September 2012.

As at 30 September 2015, deposit amounts due to related parties amounted to £125 million. This included a £100 million loan that was repaid in October 2015, three months earlier than the maturity date. In July 2015, CYBG Group repaid £312 million of senior funding from NAB at contractual maturity. Following the Demerger, CYBG Group expects amounts due to NAB to further decrease as NAB funding is replaced at maturity through like for like issuance.

As at 30 September 2015, £450 million of Additional Tier 1 capital, £478 million of subordinated liabilities and £382 million of buy-to-let RMBS issued through the Lannraig securitisation was outstanding in addition to £125 million of deposits with a residual maturity of less than one year.

At the Demerger, the existing capital instruments will be repurchased and replaced with new Additional Tier 1 and Tier 2 capital issued by the Company to NAB. The tenor of the new instruments will be lengthened compared to those being repurchased. See paragraph 10.3.1 below for further information.

10.2 *Liquidity*

Liquidity risk is the risk that CYBG Group will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. CYBG Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of CYBG Group and to enable CYBG Group to meet its financial obligations.

As at 30 September 2015, CYBG Group's LCR was 136 per cent. and CYBG Group's NSFR was 120 per cent.

10.2.1 *Contractual maturities*

The following table sets out CYBG Group's balance sheet according to the liabilities contractual maturity. Many of the longer-term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Accordingly, this information is not relied upon by CYBG Group in its management of interest rate risk.

As at 30 September 2015	**Call**	**3 months or less**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
				£m			
Liabilities:							
Due to other banks	—	390	3	—	—	—	393
Other financial liabilities at fair value	—	1	1	65	—	—	67
Derivative financial liabilities	3	28	41	248	214	—	534
Due to customers	20,370	1,505	2,045	2,487	—	—	26,407
Liabilities on acceptances	—	4	—	—	—	—	4
Due to related entities	135	8	—	380	475	—	998
Bonds and notes	—	14	852	1,973	927	—	3,766
All other liabilities	1,825	114	114	—	—	1,040	3,093
Total liabilities	**22,333**	**2,064**	**3,056**	**5,153**	**1,616**	**1,040**	**35,262**
Off balance sheet items							
Contingent liabilities	—	25	13	11	52	8	109
Other credit commitments	7,801	—	—	—	—	—	7,801
Total off balance sheet items	**7,801**	**25**	**13**	**11**	**52**	**8**	**7,910**

10.2.2 *Liquid assets*

The following table sets out CYBG Group's total unencumbered and encumbered liquid assets as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Liquid Reserve				
Cash and balances with central banks	4,398	3,932	4,647	6,148
Note cover[1]	2,033	2,054	2,073	1,779
Total cash and balances with central banks	6,431	5,986	6,720	7,927
Encumbered cash balances	(2,301)	(2,133)	(2,161)	(1,854)
	4,130	3,853	4,559	6,073
Investments – available for sale	1,462	1,168	975	1,041
Encumbered available for sale investments	(50)	(878)	(268)	(160)
	1,412	290	707	881
Total unencumbered liquid assets	**5,542**	**4,143**	**5,266**	**6,954**
Total encumbered liquid assets	2,351	3,011	2,429	2,014
Total liquid assets	**7,893**	**7,154**	**7,695**	**8,968**

(1) 2012, 2013 and 2014 balances exclude the cover held with G4S and the Post Office, which forms part of cash balances. Balances for cover held with G4S and Post Office amounted to £34 million in the year ended 30 September 2014, £45 million in the year ended 30 September 2013 and £42 million in the year ended 30 September 2012.

The liquidity portfolio comprises highly liquid unencumbered assets available and immediately accessible to meet cash outflows. Core liquidity is held predominantly in deposits with central banks. During the period under review, total unencumbered liquid assets decreased from £6,954 million as at 30 September 2012 to £4,143 million as at 30 September 2014 and increased to £5,542 million as at 30 September 2015. This is primarily due to a higher balance with the Bank of England which is a result of the funding actions described above and a lower level of sale and repurchase agreements at 30 September 2015.

As at 30 September 2015, CYBG Group had a conservative asset encumbrance ratio, defined as the amount of mortgages encumbered to support third-party bond and note issuances as a percentage of total assets, of 20.4 per cent.

CYBG Group manages the liquid asset portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets. During the period under review, CYBG Group reduced excess liquidity by withdrawing low yielding cash and balances with central banks while maintaining a prudent level of liquid assets in excess of PRA regulatory requirements. As at 30 September 2015, liquid assets increased to £7,893 million, reflecting the strong growth in retail funding in excess of lending in the year and the partial pre-funding of customer asset growth. The average yield on the liquid asset portfolio was 0.53 per cent. in the year ended 30 September 2015.

10.3 *Capital Position*

10.3.1 *Capital and capital ratios*

The table below sets out the capital position and capital ratios of CYBG Group. The information as at 30 September 2015 and 30 September 2014 is on CRD IV basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA.

	As at 30 September			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
		(£m, except %)		
Common Equity Tier 1 capital[1]				
Capital instruments	223	1,882	1,582	1,582
Retained earnings and other reserves[2]	2,097	346	535	(298)

	As at 30 September			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
	(£m, except %)			
Share premium account	670	—	—	893
Structured entities reserves(2)	—	(4)	—	—
Prudent valuation adjustment(3)	(5)	(2)	(3)	(2)
Intangible assets(4)	(265)	(213)	(215)	(198)
Deferred tax asset relying on future profitability(5)	(273)	(223)	—	—
Defined benefit pension fund assets (net of deferred tax liabilities)(6)	(42)	(39)	—	—
Pension fund deficit adjustment(7)	—	—	2	73
	2,405	**1,747**	**1,901**	**2,050**
Tier 1 capital				
Additional Tier 1 capital instruments	450	300	—	—
Perpetual non-cumulative preference shares(8)	—	—	100	100
Hybrid Tier 1 capital(9)	—	—	200	200
	450	300	300	300
Total Tier 1 capital	**2,855**	**2,047**	**2,201**	**2,350**
Tier 2 capital				
Subordinated loans(10)	460	1,125	1,125	1,125
Credit risk adjustments(11)	138	135	155	330
Revaluation reserve(12)	—	—	2	1
Excess Tier 2 capital(13)	—	—	(24)	—
Qualifying and material holding Tier 2 deductions(14)	—	—	(3)	(2)
	598	1,260	1,255	1,454
Total capital	**3,453**	**3,307**	**3,456**	**3,804**
Capital ratios:				
CET1 ratio(15)	13.2%	9.4%	9.6%	7.7%
Tier 1 ratio(16)	15.7%	11.0%	11.1%	8.9%
Total capital ratio(17)	18.9%	17.7%	17.5%	14.4%

(1) Reflects the effect of the reduction of the nominal value of each ordinary share from £1 to £0.10. The existing share capital was reduced from £2,232,012,500 divided into 2,232,012,500 ordinary shares of £1 each to £223,201,250 divided into 2,232,012,500 ordinary shares of £0.10. The nominal share value reduction has been transferred to retained earnings.

(2) Under capital requirements regulation, the cash flow hedge, available for sale and asset revaluation reserves now form part of regulatory capital resources. Structured entities reserves are also excluded for regulatory capital purposes.

(3) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.

(4) Intangible assets do not qualify as capital for regulatory purposes.

(5) Under CRD IV, deferred tax assets that rely on future profitability shall be deducted from CET1 capital.

(6) Under CRD IV, defined benefit pension fund assets shall be deducted from CET1 capital (net of deferred tax liability).

(7) For regulatory capital purposes under Basel II, the pension fund deficit is added back to regulatory capital and substituted with an estimate of additional pension fund contributions to be made over the next five years, adjusted for deferred tax. CRD IV does not allow the pension fund deficit to be added back to regulatory capital.

(8) On 20 December 2013, £100 million of perpetual non-cumulative preference shares were redeemed and replaced with AT1 perpetual capital notes. CYBG Group also issued an additional £300 million of ordinary shares to NAB on 27 March 2014.

(9) £200 million of hybrid Tier 1 capital is included in the calculation of the CET1 ratio as at 30 September 2013. On 20 December 2013, £200 million of hybrid Tier 1 capital instruments were redeemed and replaced with AT1 perpetual capital notes.

(10) Subordinated loans reflect the principal outstanding and do not include accrued interest.

(11) The collective provision add back is limited for regulatory capital purposes.

(12) Under CRD IV, the revaluation reserve is classified as CET1 capital.

(13) Under Basel II, lower Tier 2 capital instruments were restricted to 50 per cent. of total Tier 1.

(14) Material and qualifying holdings deducted under Basel II, are now risk-weighted under CRD IV rules.

(15) CET1 ratio is defined as CET1 capital divided by RWAs at a given date. The CET1 ratios as at 30 September 2012 and 2013 were calculated under Basel II. The CET1 ratio as at 30 September 2014 was calculated under CRD IV. As at 30 September 2015, this ratio was calculated in accordance with the revised CRD IV regulations applicable from 1 January 2015.

(16) Tier 1 ratio is defined as Tier 1 capital resources divided by RWAs at a given date.

(17) Total capital ratio is defined as total capital resources divided by RWAs at a given date. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing AT1 notes and Tier 2 Notes, with New AT1 Notes and New Tier 2 Notes to be issued by CYBG on the Demerger Date and initially held by NAB. For further information, see Part 14: "*Additional Information – Funding Programmes*".

CYBG Group's CET1 ratio was 9.6 per cent. as at 30 September 2013, 9.4 per cent. as at 30 September 2014 and 13.2 per cent. as at 30 September 2015.

CYBG Group's Pillar 2A capital requirement includes buffers for general banking risks and other risks including pension scheme obligation risk. Pillar 1 capital is required to be held for credit, operational counterparty and market risks. CYBG Group's Pillar 1 non-credit RWAs reduced during the period under review due to business simplification.

On 20 December 2013, CYBG Group replaced £100 million of perpetual non-cumulative preference shares and £200 million of hybrid Tier 1 capital instruments, which were not compliant with Basel III requirements for loss absorbency, with the issue to NAB of £300 million of perpetual capital notes. The perpetual capital notes are structured to qualify as Additional Tier 1 capital under CRD IV. Distributions on the £300 million of perpetual capital notes are payable on 20 December and 20 June of each year, commencing 20 June 2014, at a rate per annum equal to six month sterling LIBOR plus 7.63 per cent. CYBG Group is able to first call the £300 million of perpetual capital notes issued in December 2013 on 20 December 2018. CYBG Group also issued an additional £300 million of ordinary shares to NAB on 27 March 2014.

In December 2014, a capital restructure was completed to strengthen Clydesdale Bank's capital base and ensure that the PRA's prudential capital requirements continue to be met. As part of this restructure, CYBG Group redeemed £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties, which would have been ineligible under CRD IV as of 1 January 2015, and replaced it with an issue of £350 million of ordinary shares to NAB related parties and an issue to NAB of £150 million of perpetual capital notes. The perpetual capital notes are structured to qualify as Additional Tier 1 capital under CRD IV. Distributions on the £150 million of perpetual capital notes are payable on 29 December and 29 June of each year, commencing 29 June 2015, at a rate per annum equal to six month sterling LIBOR plus 6.9 per cent. Additional Tier 1 distributions are tax deductible. CYBG Group is able to first call the £150 million of perpetual capital notes issued in December 2014 on 29 December 2019.

The gains arising as a result of CYBG Group's regulatory capital actions in 2014 have been held to further enhance CYBG Group's CET1 capital and CET1 capital ratio. The capital benefits from balance sheet optimisation in 2014 resulted in a reduction in credit RWAs, however this was partially offset by the impact of conduct charges incurred in the year and the capital deductions arising from the introduction of CRD IV. CYBG Group continues to be fully compliant with the PRA's regulatory capital requirements. Between June and September 2015, CYBG Group issued to NAB 2 ordinary shares at their nominal value of £0.10 per share with a total share premium of £670 million as part of the preparation for the Demerger and the Global Offer. These actions led to a significant strengthening of the CET1 ratio.

On 24 September 2015, £465 million forming part of the £670 million total share premium was provided to CYBG Group by NAB by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters under the Capped Indemnity in its accounts for the year ended 30 September 2015.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 notes, with the New AT1 Notes and the New Tier 2 Notes to be issued by CYBG on the Demerger Date and initially held by NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the New AT1 Notes only) on market terms, with the pricing agreed and terms and conditions substantially agreed between NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to enhance its regulatory position in respect of its issuances of capital securities and to provide a single issuing entity for CYBG Group's capital securities following the Demerger.

The New AT1 Notes are to qualify as Additional Tier 1 capital of CYBG Group under CRD IV. Subject to certain conditions, including any mandatory or discretionary cancellation of interest, interest on the New AT1 Notes will be payable on 8 June and 8 December each year, commencing on 8 June 2016, at the rate of 8 per cent. per annum up to 8 December 2022 and thereafter at the rate equal to the sum of the applicable 5-year sterling mid-market swap rate and 6.250 per cent., reset every five years. Interest on the New AT1 Notes is tax deductible. The

New AT1 Notes are perpetual securities and have no fixed redemption date. CYBG will be able to first call the New AT1 Notes on 8 December 2022 (or earlier, for regulatory or tax reasons). The New AT1 Notes include a provision whereby if the Common Equity Tier 1 ratio of CYBG Group falls below 7 per cent. the New AT1 Notes automatically convert into ordinary shares of CYBG at a conversion price equal to 66 per cent. of the Offer Price.

The New Tier 2 Notes are to qualify as Tier 2 capital of CYBG Group under CRD IV. Interest on the New Tier 2 Notes will be payable on 8 February and 8 August each year, commencing on 8 August 2016, at the rate of 5 per cent. per annum up to 8 February 2021 and thereafter at the rate equal to the sum of the applicable 5-year sterling mid-market swap rate and 3.516 per cent. Interest on the New Tier 2 Notes is tax deductible. The Tier 2 Notes will mature on 9 February 2026, but CYBG will be able to first call the New Tier 2 Notes on 8 February 2021 (or earlier, for regulatory or tax reasons). For further information, see Part 14: "*Additional Information – Material Contracts – Demerger Deed*".

CYBG Group has implemented the Basel II requirements for the measurement of credit risks using the standardised approach, as a result of which the Directors believe CYBG Group has higher RWAs than it would have if it were to calculate RWAs using the foundation IRB or advanced IRB approach. CYBG Group's capital position under CRD IV, as at 30 September 2015, was in excess of its minimum regulatory requirements, and the Directors believe the capital ratios of CYBG Group are conservative taking into account its use of the Basel II standardised approach to credit risk-weighted asset calculation. The Directors believe that there are significant potential advantages associated with migrating to the IRB model, which they are currently exploring. Any use of the IRB approach to calculating capital requirements would require extensive work to develop IRB models and would be subject to approval by the PRA.

10.3.2 *Risk Weighted Assets*

The table below sets out CYBG Group's RWAs as at the dates indicated.

	As at 30 September			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
		£m		
RWAs[(1)]				
Retail mortgages	7,526	6,917	6,319	6,139
Business lending	7,044	7,961	9,694	15,805
Other retail lending	951	1,030	1,071	1,104
Other lending[(2)]	773	855	878	1,137
Credit risk	16,294	16,763	17,962	24,185
Credit valuation adjustment[(3)]	206	137	—	—
Operational risk	1,589	1,564	1,684	1,905
Counterparty risk	138	181	170	370
Market risk	—	—	1	1
	18,227	**18,645**	**19,817**	**26,461**

(1) RWAs are calculated under the standardised approach.

(2) Other lending comprises non-lending assets, specifically fixed assets, current account assets and fair value adjustments.

(3) Represents credit risk on derivatives from CRD IV implementation.

11. **Contingent Liabilities and Commitments**

Contingent liabilities and commitments are principally credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements. The following table sets out contingent liabilities and commitments of CYBG Group, which are not recorded on the balance sheet, as at the dates indicated.

	As at 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Contingent liabilities	109	136	213	286
Other credit commitments	7,801	8,422	8,696	9,290
Other operating lease commitments	248	245	237	371
Capital commitments	2	4	5	6
Total	**8,160**	**8,807**	**9,151**	**9,953**
Not included in the above:				
Undrawn formal standby facilities, credit lines and other commitments to lend at call in respect of assets held for sale	—	—	—	140

Contingent liabilities principally comprise possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless they are remote. For additional information, including information on the FSCS and conduct risk related matters, see note 35 to the Historical Financial Information.

Other credit commitments decreased by £621 million in 2015, £274 million in 2014 and £594 million in 2013, primarily due to the active management of borrowing facilities.

Operating lease commitments decreased by £134 million in 2013, primarily due to CYBG Group's decision to close 29 business and private banking centres and six back office locations as part of its strategic review in 2012.

For information on the composition of CYBG Group's contingent liabilities and credit related commitments by industry sector, see note 35 to the Historical Financial Information.

12. **Critical Accounting Policies**

The preparation of CYBG Group's financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although CYBG Group has internal control systems in place intended to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant use of judgements and estimates are with respect to the following matters: (1) impairment losses on loans and advances; (2) PPI redress provision and other conduct-related matters; (3) retirement benefit obligations; (4) fair value of financial instruments; (5) effective interest rate and (6) deferred tax assets. For information on CYBG Group's critical accounting policies, see note 4 to the Historical Financial Information.

PART 6
RISK MANAGEMENT

1. The approach to risk of the Company and Clydesdale Bank

Effective management of risk is a key capability for a successful financial services provider and is fundamental to the Company's and Clydesdale Bank's strategy. CYBG Group identifies and manages risk as part of a risk management framework, which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk (the "**Risk Management Framework**"). CYBG Group's Risk Management Framework is intended to help to:

- identify, analyse and understand each of the material risks at all levels of CYBG Group;
- ensure that appropriate strategies, policies, effective operating controls and other mitigants are in place and operate effectively;
- provide reliable and meaningful risk information (i.e. reporting) to decision-makers;
- ensure that there is adequate oversight of the risk profile and risk management framework; and
- facilitate a proactive risk culture.

CYBG Group has implemented significant changes to strengthen its Risk functions in recent years, in-line with industry developments and best practice, including introducing an enhanced risk accountability model, following an extensive Risk Management Framework review. CYBG Group retains 431 full time employees across its risk management function (as at 30 September 2015).

2. Risk control and management

2.1 *Risk culture*

Establishing and maintaining an effective risk framework within CYBG Group is a key objective. Culture is shaped by many aspects including tangible components such as: CYBG Group's code of conduct; operating principles; policies; standards; the risk management operating model; and an approved articulation of risk appetite that aligns to, and supports, the strategic objectives of the Company and Clydesdale Bank. The Company and Clydesdale Bank strive to instil a culture that supports compliance with all relevant laws, codes and policies and builds constructive regulatory relationships, to which end they seek to establish effective risk governance, a sound risk appetite framework, clearly defined enterprise behaviour and compensation practices that promote appropriate risk taking behaviour.

Initiatives that support an effective risk culture include: the performance management framework, which incorporates an assessment of factors including risk management, behaviour and a transparent compliance gateway rating; training; escalation procedures (both through the management hierarchy and anonymously through CYBG Group's whistle-blower facility) allowing staff to raise concerns; and messaging from the chief executive officer ("**CEO**") and members of the leadership team of CYBG Group, which has been delegated authority by the CEO.

Underpinning the risk management framework, and at the heart of CYBG Group's risk culture, is the concept of personal accountability for risk management at source. This is enabled through a risk management accountability model (which articulates specific accountabilities for core elements of risk management) and a formal delegation framework through which staff are able to make risk-based decisions.

2.2 *Strategic planning and risk appetite*

At a joint meeting, the Board and Clydesdale Bank Board established a formal risk appetite statement, which places an overall limit on the total amounts and types of risk that CYBG Group is prepared to take within its capacity to achieve its strategic objectives and business plan. This is set with respect to the returns that CYBG Group is seeking to provide to its shareholders, the credit ratings that the Company and Clydesdale Bank are seeking to maintain and the capital position and desired capital ratios of CYBG Group. The risk appetite statement informs CYBG Group's risk, capital and business limits, and is regularly reviewed by the Board as a part of the strategic planning process, or otherwise as commercial circumstances change.

Independent measurement of risk is a key tool. Risk measurement and modelling provides quantitative information to help understand and manage risk positions and exposures (within the Board approved appetite), informing (but not replacing) qualitative judgments across alternatives. Given the large volume and value of transactions across CYBG Group on a daily basis, accurately measuring risk can be a complex process. Risk models are used for pricing certain credit decisions, risk and stress-testing risk positions and financial analysis. Therefore, the risk impact of models being incorrect may have significant financial, reputational and/or regulatory impacts. CYBG Group's Model Risk Standard formalises CYBG Group's approach to managing all models and is designed to minimise operational model risk by determining the materiality of the risk, defining a process for model management, and articulating requirements for regular review and governance.

All risk models must be compliant with CYBG Group's Model Risk Standard, including third-party/ vendor provided models. Each model must have a nominated owner who is responsible for undertaking a materiality assessment during the development of the model and at least annually thereafter. This assessment is intended to ensure the risk management processes are appropriate for the level of risk of the model. In addition to the annual review, the assessment is required to be reviewed and materiality reassessed in the event of any changes to the model, new or revised regulatory requirements that may have an impact on model use or any changes to the business units that may have an impact on the model or the underlying assumptions. A prescribed "Model Risk Materiality Rating" tool is required to be used to perform the assessment with the outcomes recorded on CYBG Group's model register including the date of the next scheduled reassessment.

2.3 *Risk Management Framework*

CYBG Group's approach to risk management is based on an overriding principle that risk management capability must be embedded within Clydesdale Bank's first line teams to be effective. This overriding principle embodies the following concepts:

- commercial decisions should be made on the basis of proactive consideration of risk and the impact on customers;
- business managers should use the Risk Management Framework, which assists in the balancing of risks and rewards; and
- employees are responsible for risk management in their day-to-day activities.

Control is exercised through a clearly defined delegation of authority, with communication and escalation channels throughout the organisation. Within this context, CYBG Group manages risk with a "three lines of defence" framework. The three lines of defence are the business units themselves, the risk function, and the internal audit team.

The first line of defence comprises the business units managing the risks associated with their activities. Each business line is responsible for:

- establishing risk settings, including implementing the risk framework and determining the risk parameters, triggers and thresholds based on understanding of the business objectives and the risk profile, and establishing a risk appetite to direct the future environment;
- identifying, measuring, assessing and controlling risks through the day-to-day activities of the business;
- managing risks within the frameworks set by the second line of defence; and
- establishing and maintaining a suite of procedures that guide the operations of the business in accordance with the risk framework and Board-approved risk appetite.

The second line of defence encompasses dedicated risk functions that are responsible for ensuring that the risk and control environment is actively and appropriately managed through the provision of risk insight, appetite and oversight. The second line of defence:

- designs and oversees the risk management framework;
- challenges, validates and endorses the risk settings;
- develops and maintains policies, tools and processes for risk management;
- oversees, monitors and challenges the first line of defence on risk-related activities;

- defines minimum standards and oversees related consequence management undertaken by the first line of defence; and
- provides insight into the appropriateness of the portfolio of risks.

The third line of defence is the internal audit team, which provides independent assurance and reporting on the effectiveness of the risk management and internal control environment. The third line of defence:

- carries out internal attestations of compliance with regulatory requirements;
- determines the nature, frequency and scope of work necessary to fulfil its responsibilities; and
- reports to the Board's Audit Committee on the adequacy and effectiveness of the Risk Management Framework.

3. Principal risks

CYBG Group identifies the following material risk categories as those to which it has the most significant actual or potential exposure: credit risk, operational risk, regulatory risk, compliance risk, balance sheet and liquidity risk, market risk, defined benefit pension risk and strategic risk.

3.1 *Credit risk*

3.1.1 *Definition*

Credit risk is the potential that a customer or counterparty will fail to meet its obligations to CYBG Group in accordance with agreed terms and arises from both CYBG Group's lending activities and markets and trading activities.

3.1.2 *Principal risks*

Credit risk manifests itself in the financial instruments/products that CYBG Group offers, and those in which CYBG Group invests (including, among others, loans, guarantees, letters of credit, acceptances, inter-bank transactions, foreign exchange transactions, swaps and bonds). Credit risk can be found both on and off-balance sheet, with the majority being on-balance sheet exposure.

Credit risk arises in relation to the processes by which CYBG Group assesses the credit quality of customers, which requires subjective judgments, including forecasts of how changing macro-economic factors may affect customers' ability to repay loans. The overall credit profile of CYBG Group's borrowers may be adversely affected by a range of factors, including increased unemployment, lowered asset values (particularly in the property market), lowered consumer spending, increased customer indebtedness, increased insolvency levels, reduced business profits, increased interest rates and/or higher default rates.

3.1.3 *Managing risks*

The management of credit risk within CYBG Group is achieved through approval and monitoring of individual transactions, analysis of the performance of the various credit risk portfolios and the independent oversight of credit portfolios across CYBG Group. Portfolio monitoring techniques cover such areas as industry or geographic concentrations and delinquency trends.

Significant credit risk strategies are approved, and reviewed, by the Board and the Board's Risk Committee (the "**Board's Risk Committee**"). Through such review and approval, the Board establishes CYBG Group's tolerance for credit risk. For complex credit products and services, the Chief Credit Officer (and associated teams) provides a policy framework that identifies and quantifies risks and establishes the means of mitigating such risks. These policies and frameworks are delegated to, and disseminated under the guidance and control of, executive management, with oversight through executive governance committees. The overall composition and quality of credit portfolio exposures are monitored and periodically reported to the Board, and, where required, to the relevant supervisory authorities.

CYBG Group has internally-developed customer rating systems, which use data drawn from a number of sources to assess the potential risk in lending to its non retail customers.

CYBG Group uses a variety of strategies to attempt to mitigate credit risk, including imposing standardised underwriting policies, taking collateral over property, forbearance where there is a realistic prospect of being repaid, and the entering into of derivative and netting agreements.

CYBG Group evaluates customers' creditworthiness on a case by case basis, including its debt servicing capacity or affordability which is reflective of repayment from cash generative activities. The amount of collateral to be obtained, if any, is based on management's credit evaluation of the counterparty. The nature of the collateral to be held varies, but may include: specific charges over defined assets, a floating charge over all assets and undertakings of an entity, specific or interlocking guarantees, and loan agreements that include affirmative and negative covenants and in some instances guarantees of counterparty obligations. Generally, CYBG Group does not take possession of collateral, but when it does so, its policy is to dispose of repossessed assets and use the proceeds to reduce or repay the outstanding claim. CYBG Group has implemented policies and procedures, which it regularly reviews, intended to ensure consistent application of forbearance.

Concentration of risk is managed by client/counterparty, by product and by industry sector. In addition, exposure limits exist to limit exposure to a single entity/counterparty.

(a) *Retail credit risk*

Residential property is CYBG Group's main source of collateral and means of mitigating loss in the event of default in its residential mortgage portfolios. CYBG Group aims to support its residential mortgage lending activities by a valuation using either professional valuers or indexed valuation.

Forbearance is exercised on retail customers (primarily on residential mortgages) in a number of different ways and is specific to the individual customer's circumstances. Retail forbearance options can include capitalisation of arrears, short term measures including temporary relief from payment, permanent or temporary conversion to interest only payments, a permanent change to the loan term and court mandated forbearance exposures. CYBG Group currently exercises limited forbearance strategies in relation to other types of retail credit, including money transmission accounts, unsecured loans and credit cards.

(b) *Non-retail credit risk*

Commercial property is CYBG Group's main source of collateral on non retail lending and means of mitigating loss in the event of default in its non retail portfolios. Collateral for the majority of non retail loans comprises first legal charges over freehold or long leasehold property and/or a floating charge or debenture when lending to companies with limited liability.

Authority to grant forbearance measures for non-retail customers is exercised on the basis of consideration of a customer's financial position and prospects. Forbearance options can include: term extension, deferral of contracted capital repayments, reduction in contracted interest rates, alternative forms of payment (such as debt for equity, asset transfer and repayment by taking possession of collateral), debt forgiveness and refinancing on a non-commercial basis.

3.2 *Operational risk*

3.2.1 *Definition*

Operational risks arise from the day to day activities of CYBG Group, which may result in direct or indirect losses and could adversely impact CYBG Group's financial performance and position. These losses may result from both internal and external events, and risks, including, but not limited to, process error or failure, inadequate process design, poor product development and maintenance, poor change management, aging infrastructure and systems, system failure, security and physical protection, fraud, deficiencies in employees' skills and performance or human error, operational failures by third-party providers (including offshored and outsourced providers), natural disasters, extreme weather events, political, security and social events and failings in the financial services industry or other idiosyncratic components of operational risk that are related to CYBG Group's particular size, nature and complexity.

3.2.2 *Principal risks*

Operational risk exists across CYBG Group and is present in all business activities (including those that give rise to other risk types, such as credit risk), organisational changes such as project and business initiatives, the systems that support business activities and the way CYBG Group's people perform these activities.

Poorly designed, implemented, understood or managed processes, systems, controls and how people interact with these can result in the potential for significant operational risks to arise. These could lead to financial loss and/or negative non-financial impacts that can affect CYBG Group's ability to meet business objectives and targets, core processes, the ability to satisfy compliance obligations and CYBG Group's obligations to depositors, policy holders and/or customers.

While operational risk is characterised by numerous lower value exposures and events, Clydesdale Bank, in common with other financial institutions is also exposed to extreme, but plausible, operational risk events. Such risk events can have extreme impacts on Clydesdale Bank if and when they occur. Clydesdale Bank undertakes scenario analysis to gain insights into the stresses the business could be subject to in the event of this type of operational risk materialising. Clydesdale Bank maintains a suite of operational risk scenarios covering the Basel II event types relevant to its business. As part of the scenario analysis approach, the suite of operational risk scenarios are reviewed and updated on a regular basis for existing potential impacts and identification of potential new risk events. Management then document a proposed response to identify how the scenarios would be managed and monitored if they occurred.

3.2.3 *Managing risks*

To assist with the management of operational risk, risk categories aligned to Basel II are used to categorise and facilitate the consistent identification, assessment, mitigation, monitoring and reporting of risks and events. These risk categories are defined as follows:

- *Customer, products and sales practices ("conduct risk")* – the risk that CYBG Group's operating model, culture or actions result in unfair outcomes for customers. The treatment of customers and the management of customers impacts on all core activities. This is a principal focus of the Board, senior management and regulators, and CYBG Group seeks to ensure customers are treated fairly, products are designed and sold to meet their needs, customer expectations are met and complaints are dealt with effectively and fairly. Consideration of customer outcomes is embedded within CYBG Group's operating processes, and metrics are regularly monitored to help ensure outcomes are appropriate.
- *Regulatory environment and market practices* – the risk of regulatory sanction, material financial loss or reputational damage if CYBG Group fails to design and implement operational processes, systems and controls such that it can maintain compliance with all applicable regulatory requirements. CYBG Group is required to comply with a large volume of laws and regulations and the regulatory environment has been subject to substantial change in recent years. An ongoing focus of CYBG Group's management is to ensure that CYBG Group continues to operate within prudential parameters and that the conduct of CYBG Group's activities meets the expectations of CYBG Group's customers, shareholders and regulators. CYBG Group seeks to ensure visibility of all significant breaches with the Risk Committee and the Company and Clydesdale Bank Boards and organises its activities to help maintain controls over regulatory risk, and seeks to maintain a strong, open and trusted relationship with its regulators.
- *Monitoring, reporting and oversight* – effective controls over business operations are essential for the protection of CYBG Group's customers and shareholders and are a key responsibility of all employees and managers. CYBG Group continues to reinforce frameworks, standards and oversight arrangements to enhance the quality of risk management in the organisation. Each business unit maintains a risk profile with embedded controls and actions to manage inherent risks.
- *Payments and process management* – CYBG Group processes a large volume of transactions for customers every day. In all operational activity there is a potential risk

that established procedures are not followed, that errors fail to be detected or that inadequate controls are in place. However, CYBG Group takes active steps to manage the risk in these and other operations to help ensure these activities are conducted safely and efficiently.

- *External fraud and criminal activities* – CYBG Group takes seriously its responsibilities to protect customers against financial crime. This includes preventing fraud activities in all channels through which customers transact; the prevention of money laundering; and compliance with legal sanctions requirements. Fraud management is an ongoing challenge for the financial services industry and presents a constant risk to CYBG Group as criminal activities evolve on a national and global basis. CYBG Group takes steps designed to ensure its systems and controls remain appropriate to mitigate against the risks faced.
- *Internal fraud and criminal activities* – CYBG Group recognises the risk of internal fraud associated with internal acts intended to defraud, misappropriate funds, information and physical assets, and circumvent policy. CYBG Group has zero tolerance for internal fraud and has a control framework in place to mitigate this risk.
- *Workplace practices and environment* – providing a safe environment for customers and colleagues is important for the success of the business and CYBG Group seeks to ensure adequate safeguards are in place and are operating effectively. CYBG Group's safeguards include (without limitation): (i) a health & safety policy providing for health & safety issues to be reported to the property team; (ii) undertaking an annual inspection of all of the Company's properties by an independent service provider with sample checks conducted by the Company's property team; (iii) undertaking independent health & safety audits and fire risk assessments on a three year rolling basis by an independent service provider; and (iv) a planned preventative maintenance programme implemented across the Company's head office estate providing an overview of the life expectancy of key components of the building intended to ensure the property is fit for purpose.
- *Systems and infrastructure* – there is a risk of service interruption due to failure of CYBG Group's systems leading to a period of service disruption. CYBG Group has a strong framework of controls over the continuity of service provision for all critical processes including recovery procedures in the event of unplanned service interruption. CYBG Group also recognises the risk of cyber attack against its services and data. CYBG Group has implemented industry standard tools and internal controls to help prevent external intrusions of CYBG Group's systems and loss of sensitive information.
- *Third-party providers* – failure to manage third-party providers effectively may impact on the level of service available to customers. CYBG Group attempts to mitigate this risk through a control framework that supports the life cycle of third-party relationships including oversight of procurement through to vendor management processes. An overarching supplier council has been established to ensure strong and consistent supplier governance across all areas of the business.

CYBG Group has an established operational risk framework. The framework consists of five elements, which collectively need to operate effectively to enable the identification, assessment, management, monitoring, measurement and reporting of operational risks. The five elements are: (i) establishing an effective governance structure, including the organisational structure, roles and accountabilities that support and enable management of operational risks and operational risk events; (ii) determining an operational risk appetite, which defines the level and types of operational risks that CYBG Group is willing to assume so as to achieve its strategic objectives; (iii) determining an operational risk profile, which includes the management of operational risks, controls, residual or expected impacts, severe impacts and scenarios; (iv) measuring operational risk, which allows CYBG Group to determine the level of capital required to protect against losses arising from operational risk events; and (v) setting operational risk policies, standards and tools.

Responsibility for the management of operational risk rests with the business managers, with oversight from the risk management function and independent assurance activities undertaken by internal audit.

3.3 ***Regulatory risk***

3.3.1 *Definition*

Regulatory risk consists of regulatory strategy and change risk and regulatory relationship risk. Regulatory strategy and change risk is the risk of failing to identify and monitor changes in the regulatory environment and of failing to take opportunities to help shape the development of emerging legislative frameworks and/or to effectively implement the required changes. Regulatory relationship risk is the risk of damaging CYBG Group's relationship with regulators through non-compliance with regulatory requirements, not keeping regulators informed of relevant issues impacting (or which may potentially impact) CYBG Group, and not meeting the information requests and review findings of regulators, by providing incorrect or inadequate information, not meeting regulatory deadlines or obstructing the regulator from fulfilling its role.

3.3.2 *Principal risks*

CYBG Group is exposed to various forms of regulatory risk in its operations, including:

- that certain aspects of its business may be determined by the relevant legal or regulatory authorities or the courts not to have been conducted in compliance with applicable law or regulation or the terms of relevant licences, permissions or supervisory requirements;
- risks relating to conduct related liabilities, including the possibility of mis-selling financial products, lending irresponsibly or mishandling complaints related to the sale of such products by or attributed to CYBG Group's employees, resulting in disciplinary action or requirements to amend sales processes, withdraw products or provide restitution to affected customers;
- the possibility that products are improperly designed and/or do not operate as expected or designed not in compliance with applicable law, regulation or supervisory requirements leading to their withdrawal and resulting in disciplinary action or requirements to provide restitution to affected customers and a need to re-design such products;
- the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians;
- liability for damages to third parties harmed by the conduct of its business;
- the risk of regulatory proceedings and private litigation, arising out of regulatory investigations, enforcement actions or otherwise;
- non-compliance with regulatory and statutory reporting requirements.

3.3.3 *Managing risks*

CYBG Group's protocols sets forth governing principles for managing regulatory policies, that include conflicts of interest and privacy. The governing principles maintain protocols for, among others, monitoring outgoing and incoming communications with regulators (whether verbal or written), maintaining records of regulatory engagement, ensuring transparency with regulators, communicating with media and third parties, managing regulatory information requests and reporting incidents. The head of regulatory and compliance risk establishes the regulatory engagement policy and protocols, with the Risk Committee's approval required for material changes. Formal monitoring of compliance with the policy and protocols is managed through oversight by the regulatory and compliance risk team, regular reporting to the Risk Committee and regular risk dialogue with regulators.

3.4 ***Compliance risk***

3.4.1 *Definition*

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks. Compliance risk incorporates financial crime risk, which includes risks relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes.

3.4.2 *Principal risks*

Compliance risk is inherent in doing business in the financial industry, and may arise from:

- failure to design and implement and comply with operational arrangements, systems and controls that achieve legal and regulatory compliance;
- failure to design and operate and follow systems and controls to maintain compliance with prudential requirements;
- financial markets activity that is inappropriate and/or does not comply with regulatory requirements; and
- failure to establish and maintain effective systems and controls to prevent the risk that Clydesdale Bank might be used to further financial crime, including money laundering, counter-terrorism financing, sanctions, and bribery and corruption.

3.4.3 *Managing risks*

As a policy, CYBG Group does not tolerate non-compliance with applicable laws, regulations and voluntary commitments. The chief risk officer and his team are required to consider risks associated with each topic within compliance risk and as part of its risk appetite, assessment, profiling and reporting. The chief risk officer and his team are required to maintain suitable resources to undertake and provide local monitoring and oversight of risk management and reporting. CYBG Group maintains a compliance gateway to define and measure the minimum level of compliance expected of employees, determined by obligations set by laws, regulators, contracts, industry standards, and internal policies, standards and codes. Key compliance risks are overseen through the Risk Management Oversight and Compliance Monitoring Plan submitted annually to the Board's Risk Committee for review and approval as well as any significant deviations from the plan during the year. Criminal or unethical behaviour or failure to comply with the compliance gateway is punishable by disciplinary action, dismissal and prosecution, or other external legal or regulatory action.

With regards to anti-money laundering and counter terrorist financing, CYBG Group maintains processes aimed at: (i) assessing the money laundering and terrorist financing risks posed by its customers, products and services, and business operations; (ii) establishing customers' identities and verifying customers' identities where required by law; (iii) prohibiting relationships with customers who are individuals or entities it assesses as representing an unacceptable risk; (iv) undertaking monitoring and reporting to the extent required by local law and regulation, and the level of risk it identified; and (v) developing and implementing an anti-money laundering programme according to the requirements of the local jurisdiction.

3.5 ***Balance sheet and liquidity risk***

3.5.1 *Definition*

Balance sheet and liquidity risk is the risk that CYBG Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, the payment of dividends and the ability to fund new and existing loan commitments.

3.5.2 *Principal risks*

CYBG Group faces balance sheet and liquidity risk in its ability to meet intra-day collateral requirements in relation to clearing and settlement obligations, its ability to meet its refinancing requirements for a predefined period (including the potential impact of undrawn commitments) and the liquidity risk profile of its balance sheet to accommodate CYBG Group's strategic plan and associated risk appetite. CYBG Group faces the risk that its funding needs may increase and that its funding structure may not continue to be efficient, giving rise, in both cases, to a requirement to raise other forms of funding (e.g. wholesale).

3.5.3 *Managing risks*

Liquidity within CYBG Group is managed in accordance with ILAA standards that are approved by the Board. The ILAA standards include the manner in which CYBG Group meets applicable regulatory requirements and CYBG Group's policy for the management of liquidity risk, as well as CYBG Group's overall liquidity adequacy rule. Oversight of liquidity risk is undertaken by management's Asset and Liability Committee (the "**Asset and Liability Committee**") as delegated by the Board. To meet the requirements of regulatory authorities, the liquidity of CYBG Group is managed on a daily basis using a combination of measures including cumulative cash flow mismatch, scenario and gap analysis and stress tests designed to ensure that CYBG Group meets its normal daily cash requirements and that adequate sources of liquidity are available to support unforeseen cash outflows. The Asset and Liability Committee delegates daily management responsibilities to CYBG Group's treasury division within agreed tolerances.

CYBG Group also has a detailed annual funding plan intended to ensure diversification of sources of funding to manage the balance sheet structure and balance sheet risk. CYBG Group has a contingency funding plan, which is used to detail actions to be taken in the event of an escalated liquidity requirement if CYBG Group experiences either restricted access to wholesale funding or a large increase in the withdrawal of funds. The plan identifies triggers for escalation, details the actions required, allocates the key tasks to individuals, provides a timeframe and defines a strategic management group, under delegation from the Asset and Liability Committee, to manage the action plan.

CYBG Group has a number of different sources of funding, which it considers to be well diversified in terms of the type of instrument and product, currency, counterparty, term structure and market.

CYBG Group's main sources of funding include the following:

- Customer deposits;
- Access to sterling money markets through cash deposits and certificates of deposit;
- "Lanark" owner-occupied mortgage securitisation programme;
- "Lannraig" buy-to-let mortgage securitisation programme;
- RCB programme (as defined in Part 14: "*Additional Information – Funding Programmes*"; and
- Access to the facilities within the Bank of England's Sterling Monetary Framework.

These sources are focused on a range of different investors and depositors with a range of maturities. Funding is typically raised in pounds sterling, USD and EUR and is swapped back to pounds sterling to fund the predominantly pounds sterling balance sheet.

3.6 ***Market risk***

3.6.1 *Definition*

Market risk is the risk associated with adverse changes in the fair value of positions held by CYBG Group as a result of movement in market factors such as interest rates, foreign exchange rates, volatility and credit spreads.

(a) *Structural interest rate risk*

(i) *Definition*

Structural interest rate risk comprises the sensitivity of CYBG Group's current and future net interest income to movements in market interest rates.

(ii) *Principal risks*

In CYBG Group's activities, the main market risk arises from interest rate levels and the related volatility and basis risk.

There are three major contributors to interest rate risk:

- the investment of non interest-bearing deposits and equity into interest-bearing assets;
- the mismatch between repricing dates of interest-bearing assets and liabilities ("**mismatch risk**"); and
- the inability of the pricing 'basis' for asset and liability products to be replicated in the financial markets ("**basis risk**").

In the banking business, interest rate risk arises from the different re-pricing characteristics of assets and liabilities. Interest rates affect the cost and availability of CYBG Group's sources of funding, product margins and, in turn, net interest margin and revenue. Interest rates also affect net interest income, impairment levels and customer affordability. The interest rate levels of interest rate swaps also affect the returns achieved on certain investments.

(iii) *Managing risks*

CYBG Group manages interest rate risk principally through the use of interest rate swaps and by netting-off cashflows from its assets and liabilities.

Interest rate risk management across CYBG Group is overseen by the Asset and Liability Committee with delegation for day-to-day management to CYBG Group's treasury division.

Within the objective to secure stable and optimal net interest income over the long term, mismatch risk is minimised by the investment of equity and non-interest-bearing deposits targeting the stability of net interest income.

Basis risk is managed through a combination of wholesale market basis risk management products, pricing strategies and product innovation.

A key feature of the risk management and oversight framework is the use of value at risk as a measure of interest rate risk, along with earnings at risk as a measure to inform the impact of interest rate risk on future net interest income. Limits for value at risk and earnings at risk are complemented by sensitivity and scenario analysis. Other key features of the internal interest rate risk management model are:

- historical simulation approach utilising instantaneous interest rate shocks including parallel rate movements and twists in the yield curve to assess risks around exposures to movements in short or long term interest rates;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- economic capital is allocated for the interest rate risk in the banking book based on a higher confidence interval and a longer holding period;
- the investment term for capital is modelled with an established benchmark term of between one and five years; and
- the investment term for core "non-interest" bearing assets and liabilities is modelled on a behavioural basis with an established benchmark term of between one and five years.

(b) *Foreign exchange risk*

(i) *Definition*

Foreign exchange risk exposures arise if future cash flows can only be converted to pounds sterling at rates that are different than at the time of the original transaction.

(ii) *Principal risks*

CYBG Group's primary foreign exchange exposure arises from the Company's business conducted outside of the UK and its transactions with customers, banks and other counterparties in non-Sterling currencies, most frequently the Euro and the US dollar, and its business may be affected by a change in currency exchange rates or change in the reserve status of these currencies.

CYBG Group prepares and presents its financial statements in pounds sterling, and therefore any fluctuations in pounds sterling as compared to other currencies, in particular the Euro and US dollar, might affect the carrying value of non-sterling denominated assets and liabilities and the reported profit (or loss) incurred on non-sterling denominated transactions.

(iii) *Managing risks*

CYBG Group's policy is to fully hedge foreign exchange exposures at the time of commitment for all exposures that are considered to be of a material size.

Transactional currency exposures principally arise from dealings with customers and CYBG Group hedges exposures through transactions with a range of counterparties, including NAB, subject to exposures being of a material size.

3.7 ***Defined benefit pension risk***

3.7.1 *Definition*

Pension risk is the risk that, at any point in time, the available assets to meet defined benefit pension liabilities are at a value below current and future scheme obligations.

3.7.2 *Principal risks*

CYBG Group has funding obligations for its defined benefit occupational pension schemes. Pension risk arises from the risk that the returns from the schemes' assets, together with ongoing employer and member contributions, will be insufficient to cover the projected obligations of the scheme over time. The return on assets varies with movements in equity prices, interest rates, property prices and the value of other assets. The projection of the schemes' obligations includes estimates of mortality, inflation and future salary rises, and discount factors; the actual outturn of which may differ from the estimates. The schemes are also exposed to possible changes in pension legislation.

3.7.3 *Managing risks*

The scheme is managed by independent trustees. However, the impact of the scheme on CYBG Group is subject to management by CYBG Group and corresponding risk oversight. CYBG Group's Pension Risk Management Committee reports to the Risk Committee on pension risks. See Part 14: "*Additional Information – Pensions – Defined contribution scheme*" and "*Risk Factors – Risks Relating to Pension Schemes*" for further information.

3.8 ***Strategic risk***

3.8.1 *Definition*

Strategic risk is the risk of significant loss or damage arising from business decisions that impact the long-term interests of CYBG Group's stakeholders or from an inability to adapt to external developments.

3.8.2 *Principal risks*

Strategic risk can arise if CYBG Group designs and/or implements an inappropriate strategic plan, designs an appropriate plan but fails to implement it and/or implements the strategic plan as intended however external circumstances change (e.g. CMA review on competition, regulatory impositions, competitor actions) and anticipated outcomes are not achieved.

The risk of CYBG Group failing to execute on its strategy and generating an unsustainable business model is contemplated as part of the Board's risk profile. The Company understands that this could be due to CYBG Group's inability to respond to cultural, structural and regulatory changes that need to be made; failure to establish and execute a compelling digital strategy and platform and/or increase organisational capability (through investment); an inappropriate governance framework or it not operating as designed; inadequate product, portfolio and pricing decisions; and/or being an inefficient, high cost, uninspiring and/or uncompetitive provider of products and services.

3.8.3. *Managing risk*

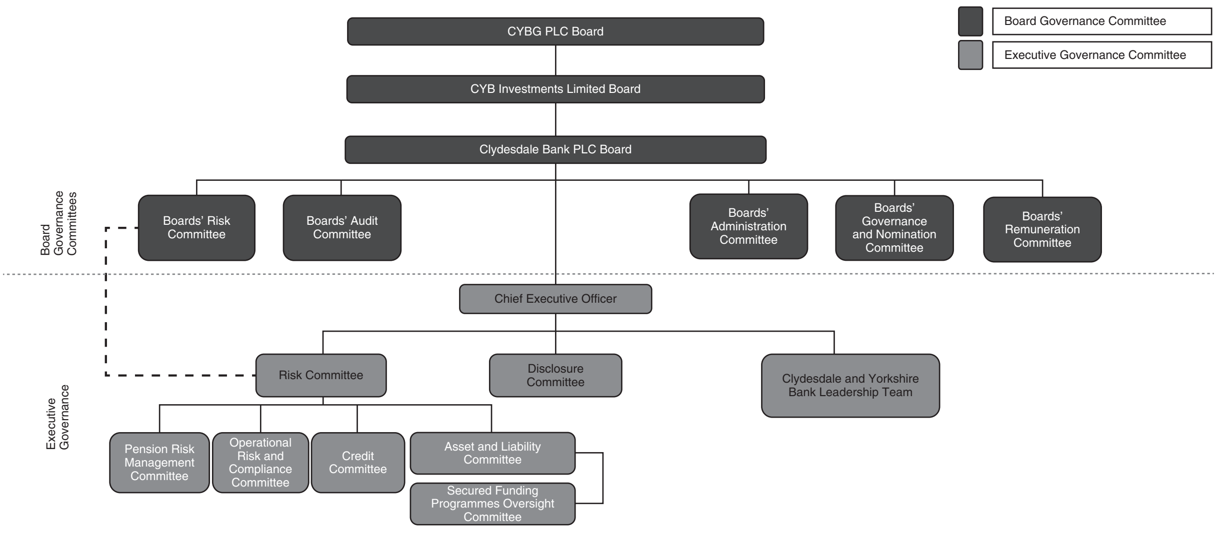
While CYBG Group has no specific formal policies or standards that govern strategic risk, the Board is ultimately responsible for overseeing the execution of CYBG Group's strategic plan and associated strategic risk, and on the recommendation of the CEO and executive management, the Board approves CYBG Group's strategic and operational plans.

CYBG Group considers the strategic risk described above as part of the Board's risk profile. A consolidated report is prepared and presented (for discussion) to the Board's Risk Committee which outlines CYBG Group's exposure to strategic risk.

4. Risk governance structure

CYBG Group believes its risk governance structure strengthens risk evaluation and management, while also positioning CYBG Group to manage the changing regulatory environment in an efficient and effective manner.

The oversight of the risk governance structure is facilitated by the Board and Clydesdale Bank Board which approve the overall governance, risk and control frameworks and risk appetite. This risk and control framework was comprehensively reviewed following the FSA's (now the FCA's) skilled persons review in 2012-2013 and is continually reviewed for new risks and developments. Additional oversight of risk appetite is provided by the Board. See Part 3: "*Directors, Senior Management and Corporate Governance*" for further information on Board committees. The table below details CYBG Group's board and management risk reporting structure.



4.1 ***Executive governance committees established under the authority of the CEO***

The following executive governance committees have been established under the authority of the CEO where decisions within the remit of committees in the committee structure would otherwise be decisions of the CEO.

Committees	Risk Focus
Risk Committee	The Management Risk Committee supports the CEO in respect of his risk and control accountabilities and serves to provide leadership focus on key risk issues including: • devising the Risk Appetite Statement for approval by the Board and Clydesdale Bank Board; • overseeing and challenging the enterprise-wide risk performance and control environment of CYBG Group and business units, including the effective use of policy, frameworks and tools; • monitoring the status of regulatory relationships, the reputation of CYBG Group in relation to its regulators and the changing state of the regulatory landscape including the impacts for and readiness of CYBG Group; • monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and • reviewing and endorsing risk policies, frameworks and tools for use across CYBG Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring CYBG Group complies with the continuous disclosure obligations of the exchanges on which it has equity and debt securities listed.
Clydesdale and Yorkshire Bank Leadership Team	The Clydesdale and Yorkshire Bank Leadership Team supports the CEO to lead CYBG Group in its efforts to make Clydesdale Bank a strong, customer focused bank for its communities by focusing on four business priorities: customers, risks and controls, sustainable returns and people.

The Risk Committee is supported by the following committees:

Pension Risk Management Committee	The Pension Risk Management Committee is responsible for overseeing pension risk management and strategy. This committee also oversees and governs interaction with pension scheme trustees.
Operational Risk and Compliance Committee	The Operational Risk and Compliance Committee is responsible for ensuring that the risk management frameworks and associated policies relating to Operational Risk, Financial Crime Risk, Regulatory Compliance and Conduct Risk remain effective. The committee will also have oversight of the management of medium and high risk change initiatives and resolution of material events.
Credit Committee	The Credit Committee is responsible for ensuring that the Credit Risk Management Framework and associated policies remain effective. The committee will have oversight of the quality, composition and concentrations of the credit risk portfolio and recommend strategies to adjust the portfolio to react to changes in market conditions.
Asset and Liability Committee	The Asset and Liability Committee is responsible for monitoring the performance of CYBG Group against the Board's approved capital and funding plans. The committee focuses on CYBG Group's non-traded market risks including capital, funding, liquidity, interest rate risk and pension risk to ensure that CYBG Group's activity complies with regulatory and corporate governance requirements and also delivers CYBG Group policy objectives.
Secured Funding Programmes Oversight Committee	The Secured Funding Programmes Oversight Committee is responsible for supporting the Asset and Liability Committee in relation to its risk monitoring and oversight responsibilities of all secured funding programmes and supporting the Chief Financial Officer in relation to the compliance of the RCB Programme with FCA regulations and the RCB Sourcebook.

4.2 ***Stress testing***

Stress testing within CYBG Group's risk governance and capital framework

Stress testing within CYBG Group has been developed to inform future business and risk planning initiatives, strategic risk management (including the setting of risk appetite) and capital management. Specifically, stress testing is used or considered in informing the following management decisions:

(a) *Risk appetite and strategic business planning* – as part of an annual assessment of future opportunities for, and threats to, CYBG Group, stress testing outputs are used to inform the strategic planning process and to develop risk posture and risk appetite settings.

(b) *Capital planning* – stress testing informs the assessment and quantification of risk exposures in the course of calculating capital requirements as part of the capital planning process.

(c) *Liquidity management* – scenarios provide insight into potential vulnerabilities in CYBG Group's funding strategies. Regular stress tests are undertaken to understand and monitor exposure to liquidity risk with their regularity being aligned to the nature of, and exposure to, the risk type.

(d) *Recovery and resolution plan* – the recovery and resolution plan helps inform both stress testing and reverse stress testing scenario development. Reverse stress testing explores circumstances, or a set of circumstances, that render CYBG Group's business model unviable, moving CYBG Group into insolvency. As a result, these stresses are recognised as a required risk management tool in the form of early warning indicators of potential stress events.

(e) *Strategic risk management* – stress testing informs the nature and level of risk carried by CYBG Group arising from opportunistic assessments such as investments, divestments and acquisitions through emerging material risks posed by trends in or changes to the business environment.

Stress Testing Oversight and Governance

The Clydesdale and Yorkshire Bank Leadership Team are responsible for ensuring that the outcome of the capital stress testing is subject to robust challenge and endorsement prior to Board approval.

The Clydesdale and Yorkshire Bank Leadership Team are engaged in stress testing to provide review, discussion and debate into the scenario selection process, based on their experience and knowledge as heads of each business unit. The Leadership Team also considers and assesses results in the context of future strategic decision-making, contingency planning and capital and business planning.

The Asset and Liability Committee reviews the scenarios, assumptions and results of liquidity stress testing. The results of liquidity stress scenarios are reported to the Asset and Liability Committee monthly. The scenarios are the liquidity stress scenarios approved by the Board as part of the ILAA.

The Company Board engages at critical points of the stress testing cycle to provide a robust and strategic challenge in relation to scenario selection and development. In addition, the Board considers how the results are integrated into the future strategic decision-making, contingency planning, capital and business planning and risk appetite.

PART 7
CAPITALISATION AND INDEBTEDNESS STATEMENT

The following table sets out CYBG Group's capitalisation as at 30 September 2015. The capitalisation of CYBG Group has been extracted without material adjustment from the Historical Financial Information.

	As at 30 September 2015
	£m
Shareholders' equity	
Share capital[1]	223
Share premium account	670
Other equity instruments[2]	450
Other reserves	4
Total capitalisation	**1,347**

(1) Total Shares by number of 2,232,012,512 with a nominal value of £0.10 amounting to £223,201,251.
(2) Other equity instruments represents Additional Tier 1 notes, which are perpetual securities with no fixed maturity or redemption date.

A reorganisation, which is described in Part 13: "*Details of the Demerger and Company Capital Reduction*" and the effects of which are not reflected in the table above, is expected to occur immediately prior to Admission, by which the Company will become the parent of CYBI. The combination of the Company with CYBI and its consolidated controlled entities is referred to as CYBG Group. Except for this reorganisation, there has been no change in CYBG Group's capitalisation since 30 September 2015.

The following table sets out CYBG Group's indebtedness and has been extracted from CYBG Group's unaudited accounting records as at 31 December 2015, which is the latest practicable date prior to publication of this document. Indebtedness is unsecured and unguaranteed, unless stated otherwise.

	As at 31 December 2015
	£m
Indebtedness	
Deposits by banks	260
Bonds and notes[1]	3,704
Due to related entities[2]	882
Total indebtedness	**4,846**

(1) Bonds and notes comprises a series of RMBS and covered bonds that are secured on CYBG Group's mortgage assets. The covered bonds are guaranteed by Clydesdale Covered Bonds No. 2 LLP.
(2) Due to related entities includes £374 million of buy-to-let RMBS issued under the Lannraig Programme that are secured on CYBG Group's mortgage assets.

	As at 31 December 2015
	£m
Indirect and contingent indebtedness	
Assets pledged as collateral security	99
Other contingent liabilities	8,415
Total indirect and contingent indebtedness	**8,514**

PART 8
HISTORICAL FINANCIAL INFORMATION

SECTION A: ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION

The Directors
CYBG PLC
20 Merrion Way
Leeds
LS2 8NZ

The Directors
CYB Investments Limited
20 Merrion Way
Leeds
LS2 8NZ

3 February 2016

Dear Sirs,

CYB Investments Limited (formerly National Australia Group Europe Limited) ("**CYBI**")

We report on the financial information of CYBI for the years ended 30 September 2012, 2013, 2014 and 2015 as set out in Section B of this Part 8 (the **"Historical Financial Information"**). The Historical Financial Information has been prepared for inclusion in the prospectus dated 3 February 2016 of CYBG PLC (the "**Company**") on the basis of the accounting policies set out in Note 3 of the Historical Financial Information. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of the Company are responsible for preparing the Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the Historical Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the prospectus dated 3 February 2016, a true and fair view of the state of affairs of CYBI as at the dates stated and of its profits, cash flows and statements of changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) 809/2004.

Yours faithfully

Ernst & Young LLP

SECTION B: HISTORICAL FINANCIAL INFORMATION FOR THE YEARS ENDED 30 SEPTEMBER 2015, 2014, 2013 AND 2012

Consolidated income statements for the years ended 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012

	Note	Year ended 30 September			
		2015	2014	2013	2012
		£m			
Interest income and similar income		1,110	1,135	1,209	1,461
Interest expense and similar charges		(323)	(350)	(441)	(584)
Net interest income	6	787	**785**	**768**	**877**
Gains less losses on financial instruments at fair value		2	(8)	(35)	(144)
Other operating income		238	205	225	399
Non – interest income	7	**240**	**197**	**190**	**255**
Total operating income		**1,027**	**982**	**958**	**1,132**
Personnel expenses		(266)	(287)	(302)	(329)
Restructuring expenses		(17)	—	—	(149)
Depreciation expense		(83)	(78)	(76)	(75)
Other operating and administrative expenses		(868)	(777)	(485)	(645)
Total operating and administrative expenses before impairment losses	8	**(1,234)**	**(1,142)**	**(863)**	**(1,198)**
Operating profit/(loss) before impairment losses		**(207)**	**(160)**	**95**	**(66)**
Impairment losses on credit exposures	17	(78)	(74)	(144)	(737)
Loss on ordinary activities before tax		**(285)**	**(234)**	**(49)**	**(803)**
Analysed as:					
Profit/(loss) before tax, Net gain on capital and debt restructuring, PPI redress expense, PPI complaint handling fine, IRHP/FRTBL redress expense, Other conduct expenses, Restructuring expenses, Separation costs, Pension benefits and Impairment of intangible assets and goodwill		159	222	131	(464)
PPI redress expense	29	(390)	(420)	(130)	(120)
PPI complaint handling fine	8	(21)	—	—	—
IRHP/FRTBL redress expense	29	(75)	—	—	—
Other conduct expenses	8	—	(13)	(50)	(23)
Restructuring expenses	8	(17)	—	—	(149)
Separation costs	8	(10)	—	—	—
Net gain on capital and debt restructure	7,12	61	—	—	—
Pension scheme reforms benefit		—	—	—	130
Pension increase exchange gain	31	18	—	—	—
Impairment of intangible assets and goodwill	23	(10)	(23)	—	(177)
Loss on ordinary activities before tax		(285)	(234)	(49)	(803)
Tax credit	9	60	44	5	156
Loss for the year		**(225)**	**(190)**	**(44)**	**(647)**
Attributable to					
Equity holders of the parent		(225)	(198)	(44)	(656)
Non-controlling interest		—	8	—	9
		(225)	**(190)**	**(44)**	**(647)**

All material items dealt with in arriving at the loss before tax for the above periods relate to continuing activities.
Notes 1 to 41 form an integral part of this Historical Financial Information.

Consolidated statements of comprehensive income for the years ended 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012

	Note	2015	2014	2013	2012
		Year ended 30 September			
		£m			
Loss for the year		**(225)**	**(190)**	**(44)**	**(647)**
Items that may be reclassified to the income statement					
Change in cash flow hedge reserve					
Gains/(losses) during the year		21	1	(81)	2
Transfers to the income statement		(18)	(50)	(51)	(1)
Taxation thereon		—	10	31	3
		3	(39)	(101)	4
Change in available for sale investments reserve					
Gains/(losses) during the year		5	4	(13)	2
Transfers to the income statement		—	—	—	(4)
Taxation thereon		(1)	(1)	6	—
		4	3	(7)	(2)
Total items that may be reclassified to the income statement		**7**	**(36)**	**(108)**	**2**
Items that will not be reclassified to the income statement					
Change in asset revaluation reserve					
Transfer to retained profits		—	—	—	(1)
Taxation thereon(1)		—	1	1	—
		—	1	1	(1)
Remeasurement of defined benefit pension plans	31	(36)	24	21	(328)
Taxation thereon(1)		7	(2)	(37)	60
		(29)	22	(16)	(268)
Total items that will not be reclassified to the income statement		**(29)**	**23**	**(15)**	**(269)**
Other comprehensive losses, net of tax		**(22)**	**(13)**	**(123)**	**(267)**
Total comprehensive losses for the year		**(247)**	**(203)**	**(167)**	**(914)**
Attributable to:					
Equity holders of the parent		(247)	(211)	(167)	(923)
Non-controlling interest		—	8	—	9
		(247)	**(203)**	**(167)**	**(914)**

Notes 1 to 41 form an integral part of this Historical Financial Information.

(1) 2012 and 2013 includes restatement in respect of rate change.

Consolidated balance sheets as at 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012

	Note	As at 30 September 2015	2014	2013	2012
Assets					
Cash and balances with central banks	11	6,431	5,986	6,720	7,927
Due from related entities	12	786	1,487	1,390	1,256
Due from other banks		128	13	184	14
Financial assets available for sale	13	1,462	1,168	975	1,041
Other financial assets at fair value	14	1,097	1,583	2,171	2,820
Derivative financial instruments	15	285	220	244	637
Loans and advances to customers	16	27,482	25,901	23,960	24,418
Due from customers on acceptances		4	5	4	7
Current tax assets		4	—	3	30
Property, plant and equipment	19	109	121	133	140
Investment properties	20	32	44	63	77
Property inventory	21	—	2	6	9
Investments in controlled entities and associates	22	2	2	3	3
Intangible assets	23	265	213	215	198
Deferred tax assets	24	389	349	273	305
Defined benefit pension assets	31	52	49	—	—
Other assets	25	177	249	404	275
Assets held for sale	26	—	—	—	5,225
Total assets		**38,705**	**37,392**	**36,748**	**44,382**
Liabilities					
Due to other banks	27	393	914	521	557
Other financial liabilities at fair value	14	67	91	123	149
Derivative financial instruments	15	534	548	651	953
Due to customers	28	26,407	24,073	24,355	26,615
Liabilities on acceptances		4	5	4	7
Current tax liabilities		—	32	—	—
Provisions	29	1,006	952	315	292
Due to related entities	12	998	2,677	3,036	7,716
Bonds and notes	30	3,766	3,453	3,085	3,187
Retirement benefit obligations	31	4	4	202	306
Deferred tax liabilities	24	10	10	7	39
Other liabilities	32	2,073	2,095	2,000	1,800
Liabilities associated with assets held for sale	26	—	—	—	142
Total liabilities		**35,262**	**34,854**	**34,299**	**41,763**
Equity					
Share capital	33,34	223	1,882	1,682	1,682
Other equity instruments	34	450	300	—	—
Share premium	34	670	—	—	893
Other reserves	34	4	96	32	142
Retained earnings	34	2,096	260	535	(298)
Total parent entity interest	34	3,443	2,538	2,249	2,419
Non – controlling interest	34	—	—	200	200
Total equity		3,443	2,538	2,449	2,619
Total liabilities and equity		**38,705**	**37,392**	**36,748**	**44,382**

Notes 1 to 41 form an integral part of this Historical Financial Information.

Statements of changes in equity for the years ended 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012

	Note	Share capital	Share premium account	Capital redemption reserve	Other equity instruments	Share option reserve	Asset revaluation reserve	Available for sale investments reserve	Cash flow hedge reserve	Retained earnings	Total parent entity interest	Non-controlling interest	Total equity
								£m					
As at 1 October 2011		1,182	893	—	—	14	2	14	120	632	2,857	200	3,057
Loss for the year		—	—	—	—	—	—	—	—	(656)	(656)	9	(647)
Other comprehensive (losses)/income, net of tax		—	—	—	—	—	(1)	(2)	4	(268)	(267)	—	(267)
Total comprehensive (losses)/income for the year		—	—	—	—	—	(1)	(2)	4	(924)	(923)	9	(914)
Dividends paid		—	—	—	—	—	—	—	—	(6)	(6)	—	(6)
Distribution		—	—	—	—	—	—	—	—	—	—	(9)	(9)
Shares issues – ordinary		500	—	—	—	—	—	—	—	—	500	—	500
Share options expensed		—	—	—	—	11	—	—	—	—	11	—	11
Share options settled		—	—	—	—	(20)	—	—	—	—	(20)	—	(20)
As at 30 September 2012		**1,682**	**893**	**—**	**—**	**5**	**1**	**12**	**124**	**(298)**	**2,419**	**200**	**2,619**
Loss for the year		—	—	—	—	—	—	—	—	(44)	(44)	—	(44)
Other comprehensive income/(losses), net of tax		—	—	—	—	—	1	(7)	(101)	(16)	(123)	—	(123)
Total comprehensive income/(losses) for the year		—	—	—	—	—	1	(7)	(101)	(60)	(167)	—	(167)
Share premium cancellation		—	(893)	—	—	—	—	—	—	893	—	—	—
Share options expensed		—	—	—	—	3	—	—	—	—	3	—	3
Share options settled		—	—	—	—	(6)	—	—	—	—	(6)	—	(6)
As at 30 September 2013	34	**1,682**	**—**	**—**	**—**	**2**	**2**	**5**	**23**	**535**	**2,249**	**200**	**2,449**
Loss for the year		—	—	—	—	—	—	—	—	(198)	(198)	8	(190)
Other comprehensive income/(losses), net of tax		—	—	—	—	—	—	3	(39)	23	(13)	—	(13)
Total comprehensive income/(losses) for the year		—	—	—	—	—	—	3	(39)	(175)	(211)	8	(203)
Dividend paid		—	—	—	—	—	—	—	—		—	(8)	(8)
Capital redemption		—	—	—	—	—	—	—	—	—	—	(200)	(200)
Capital note issued		—	—	—	300	—	—	—	—	—	300	—	300
Shares repurchased		(100)	—	—	—	—	—	—	—	—	(100)	—	(100)
Shares issued		300	—	—	—	—	—	—	—	—	300	—	300
Share options expensed		—	—	—	—	6	—	—	—	—	6	—	6
Transfer to capital redemption reserve		—	—	100	—	—	—	—	—	(100)	—	—	—
Share options settled		—	—	—	—	(6)	—	—	—	—	(6)	—	(6)
As at 30 September 2014	**34**	**1,882**	**—**	**100**	**300**	**2**	**2**	**8**	**(16)**	**260**	**2,538**	**—**	**2,538**

Notes 1 to 41 form an integral part of this Historical Financial Information

Statements of changes in equity for the years ended 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012 (continued)

	Note	Share capital	Share premium account	Capital redemption reserve	Other equity instruments	Share option reserve	Asset revaluation reserve	Available for sale investments reserve	Cash flow hedge reserve	Retained earnings	Total parent entity interest	Non-controlling interest	Total equity
As at 30 September 2014 (carried forward)	34	**1,882**	—	**100**	**300**	**2**	**2**	**8**	**(16)**	**260**	**2,538**	—	**2,538**
Loss for the year		—	—	—	—	—	—	—	—	(225)	(225)	—	(225)
Other comprehensive (losses)/income, net of tax		—	—	—	—	—	—	**4**	**3**	**(29)**	**(22)**	—	**(22)**
Total comprehensive (losses)/income for the year		—	—	—	—	—	—	4	3	(254)	(247)	—	(247)
AT1 distribution paid		—	—	—	—	—	—	—	—	(18)	(18)	—	(18)
Nominal share value reduction		(2,009)	—	—	—	—	—	—	—	2,009	—	—	—
Capital note issued		—	—	—	150	—	—	—	—	—	150	—	150
Shares issued		350	670	—	—	—	—	—	—	—	1,020	—	1,020
Transfer from capital redemption reserve		—	—	(100)	—	—	—	—	—	100	—	—	—
Transfer to share option reserve		—	—	—	—	1	—	—	—	(1)	—	—	—
Share options expensed		—	—	—	—	7	—	—	—	—	7	—	7
Share options settled		—	—	—	—	(7)	—	—	—	—	(7)	—	(7)
As at 30 September 2015	34	**223**	**670**	—	**450**	**3**	**2**	**12**	**(13)**	**2,096**	**3,443**	—	**3,443**

Notes 1 to 41 form an integral part of this Historical Financial Information.

Statements of cash flows for the years ended 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012

	Note	Year ended 30 September 2015	2014	2013	2012
		£m			
Operating activities					
Loss on ordinary activities before tax		(285)	(234)	(49)	(803)
Adjustments for:					
Non-cash or non-operating items included in profit/ (loss) before tax	36	(679)	(615)	(527)	100
Changes in operating assets	36	(1,494)	(1,177)	6,122	457
Changes in operating liabilities	36	1,983	562	(2,634)	(2,169)
Interest received		1,257	1,134	1,213	1,563
Interest paid		(418)	(257)	(317)	(451)
Tax repayment received		5	—	—	—
Tax (paid)/received-group relief		(20)	18	30	3
Net cash (used in)/provided by operating activities		**349**	**(569)**	**3,838**	**(1,300)**
Cash flows from investing activities					
Interest received		8	8	8	12
Proceeds from sale or maturity of investments		—	50	50	79
Proceeds from sale of tangible fixed assets [(1)]		17	41	39	39
Purchase of tangible fixed assets [(1)]		(19)	(23)	(37)	(16)
Purchases of investments		(269)	(251)	(50)	—
Purchase and development of intangible assets		(119)	(75)	(69)	(62)
Net cash (used in)/provided by investing activities		**(382)**	**(250)**	**(59)**	**52**
Cash flows from financing activities					
Interest received		3	4	5	13
Interest paid		(122)	(131)	(131)	(229)
Proceeds from ordinary shares issued	33	1,020	300	—	500
Proceeds from other capital issued	34	150	300	—	—
Redemption of preference shares		—	(100)	—	—
Redemption of non-controlling interest		—	(200)	—	—
Redemption of subordinated debt	12	(591)	—	—	(200)
Redemption/maturity of medium term notes		(427)	—	—	(1,898)
Other movements in bonds and notes		—	—	—	(75)
Redemption, principal repayment and other movements on residential mortgage backed securities and covered bonds	18	(921)	(216)	(613)	(869)
Issuance of residential mortgage backed securities and covered bonds	18	1,207	601	541	2,652
Net decrease/(increase) in amounts due from related entities		686	(91)	(125)	3,696
Net decrease in amounts due to related entities		(512)	(295)	(4,859)	(248)
Amounts paid to non – controlling interest		—	(8)	—	(9)
Dividends paid		(18)	—	—	(6)
Net cash provided by/(used in) financing activities		**475**	**164**	**(5,182)**	**3,327**
Net increase/(decrease) in cash and cash equivalents		**442**	**(655)**	**(1,403)**	**2,079**
Cash and cash equivalents at the beginning of the year		5,895	6,550	7,953	5,874
Cash and cash equivalents at the end of the year	**36**	**6,337**	**5,895**	**6,550**	**7,953**

(1) Tangible fixed assets include property, plant and equipment, investment properties and property inventory.

Notes 1 to 41 form an integral part of this Historical Financial Information.

Notes to the Historical Financial Information

1. **General information**

Corporate information

CYBG PLC (the "**Company**") is a public limited company incorporated and registered in England and Wales. The registered office is 20 Merrion Way, Leeds, LS2 8NZ and the registered number is 9595911.

A reorganisation, which is described in Part 13: "*Details at the Demerger and Company Capital Reduction*", is expected to occur immediately prior to Admission, by which the Company will become the parent of CYBI. For the purposes of this Historical Financial Information, the consolidated results of CYBI and its consolidated subsidiaries are assumed to represent the trade of the group headed by the Company at Admission. The combination of the Company with CYBI and its consolidated controlled entities is referred to as CYBG Group ("**CYBG Group**").

2. **Basis of preparation**

The Historical Financial Information (the "**Historical Financial Information**") comprises the consolidated financial information of each of the companies of CYBG Group, as defined in note 1, for the years ended 30 September 2015, 30 September 2014, 30 September 2013 and 30 September 2012.

The Historical Financial Information has been prepared for inclusion in this Prospectus in compliance with item 20.1 of Annex I to the Prospectus Directive Regulation, the UK Listing Rules and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IASB**"), and as adopted by the EU ("**IFRS**"). References to IFRS should be construed as references to IFRS as adopted by the EU.

The Historical Financial Information has been prepared under the historical cost convention as modified by the revaluation of land and buildings, investment properties, derivative financial instruments, available for sale financial assets and certain other financial assets and liabilities held at fair value through profit or loss. The accounting policies set out in note 3 have been applied consistently to all years presented in the Historical Financial Information.

Going concern

In assessing CYBG Group's going concern position as at 30 September 2015, the Directors have considered a number of factors including CYBG Group's capital structure, its funding and liquidity position and its future financial performance. This assessment also took into consideration the impact of the intention to pursue the Demerger and Global Offer as a result of the separation from NAB as announced on 7 May 2015 and confirmed on 28 October 2015. The assessment concluded that, for the foreseeable future, CYBG Group has sufficient capital to support its operations; has a funding and liquidity base which is strong, robust and well managed with future capacity; and has expectations that performance will improve as the economy continues to recover.

As a result of the assessment, the Directors have a reasonable expectation that CYBG Group has adequate resources to continue in operational existence for the foreseeable future and therefore believe that CYBG Group is well placed to manage its business risks successfully in line with its business model and stated strategic aims. Accordingly, they continue to adopt the going concern basis in preparing the Historical Financial Information.

3. **Accounting policies**

Basis of consolidation

Controlled entities are all entities (including structured entities) to which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. For details of controlled structured entities refer to note 22.

Controlled entities are consolidated from the date on which control is established by CYBG Group until the date that control ceases. The acquisition method of accounting is used to account for business combinations other than those under common control. Balances and transactions between entities within CYBG Group and any unrealised gains and losses arising from those transactions are eliminated in full upon consolidation. The consolidated financial statements have been prepared using uniform accounting policies and are based on the same accounting period as National Australia Bank Limited ("**NAB**").

New accounting standards and interpretations adopted in the Historical Financial Information

The Historical Financial Information has been prepared in accordance with the accounting standards endorsed at the date of this Prospectus that are effective for financial years beginning on or after 1 October 2014. Therefore, in preparing this Historical Financial Information, CYBG Group has adopted the following IASB pronouncements relevant to CYBG Group consistently across the Historical Financial Information:

- 'Annual Improvements to IFRS 2010-2012 cycle', issued December 2013 and effective for financial years beginning on or after 1 July 2014 (with the application date for EU entities being financial years beginning on or after 1 February 2015). The IASB have made amendments to the following standards that are relevant to CYBG Group: IFRS 2 'Share based payments', IFRS 3 'Business Combinations', IFRS 8 'Operating Segments', IFRS 13 'Fair Value Measurement', IAS 16 'Property, Plant and Equipment', IAS 24 'Related party disclosures' and IAS 38 'Intangible assets'. The impact of these amendments is not considered to be material to CYBG Group. CYBG Group has elected to early adopt these amendments.
- 'Annual Improvements to IFRS 2011-2013 cycle', issued December 2013 and effective for financial years beginning on or after 1 July 2014 (with the application date for EU entities being financial years beginning on or after 1 January 2015). The IASB have made amendments to the following standards that are relevant to CYBG Group: IFRS 3 'Business Combinations', IFRS 13 'Fair Value Measurement' and IAS 40 'Investment Property'. The impact of these amendments is not considered to be material to CYBG Group. CYBG Group has elected to early adopt these amendments.
- IAS 39 'Novation of Derivatives and Continuation of Hedge accounting – Narrow Scope Amendment', issued June 2013 and effective for financial years beginning on or after 1 January 2014. This amends IAS 39 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The impact of these amendments is not considered to be material to CYBG Group.
- Amendments to IAS 32 'Financial instruments – Presentation', issued December 2011 and effective for financial years beginning on or after 1 January 2014. This amendment adds application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria of IAS 32, including clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The impact of these amendments is not considered to be material to CYBG Group.
- Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' issued May 2013 and effective for financial years beginning on or after 1 January 2014. This amends the disclosure requirements of IAS 36 to include additional information about the fair value measurement where the recoverable amount of the impaired asset is based on fair value less costs of disposal. The impact of these amendments is not considered to be material to CYBG Group.
- 'Defined benefit plans: Employee Contributions (Amendments to IAS 19)', issued November 2013 and effective for financial years beginning on or after 1 July 2014 (with the application date for EU entities being financial years beginning on or after 1 February 2015). This amendment to IAS 19 permits certain contributions from employees or third parties (only those contributions that are independent of the number of years of service) to be recognised as a reduction in the service cost in the period in which the employee's services are rendered, rather being attributed to periods of service as a 'negative benefit'.

The following IASB pronouncements are relevant to CYBG Group but were not available for adoption in the EU and have not been applied by CYBG Group in the current year. The impact of these pronouncements is still being assessed by CYBG Group. Except where otherwise stated, CYBG Group does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the financial statements:

- IFRS 15 'Revenue from Contracts with Customers', issued May 2014 and effective for financial years beginning on or after 1 January 2018. This standard establishes principles for reporting information about the nature, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five step model to be applied to all contracts with customers.

- Amendments to IAS 16 and IAS 38: 'Clarification of acceptable methods of depreciation and amortisation', issued May 2014 and effective for financial years beginning on or after 1 January 2016. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation being the expected pattern of consumption of the future economic benefits of an asset. This amendment provides clarification that the use of certain revenue based methods to calculate depreciation are not appropriate.
- Amendments to IAS 27: 'Equity Method in Separate Financial Statements', issued August 2014 and effective for financial years beginning on or after 1 January 2016. The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- 'Annual improvements to IFRS 2012-2014 cycle', issued September 2014 and effective for financial years beginning on or after 1 January 2016. The IASB have made amendments to the following standards that are relevant to the Company: IFRS 5 'Non-current assets held for sale and discontinued operations', IFRS 7 'Financial instruments: Disclosures', IAS 19 'Employee Benefits' and IAS 34 'Interim financial reporting'.
- Amendments to IAS 1: Disclosure initiative, issued December 2014 and effective for financial years beginning on or after 1 January 2016. Narrow scope amendments providing clarification to existing IAS 1 'Presentation of financial statements' requirements.
- Amendments to IFRS 11: 'Accounting for acquisitions of joint ventures and associates', issued May 2014 and effective for financial years beginning on or after 1 January 2016. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.
- Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', issued in September 2014 and effective for financial years beginning on or after 1 January 2016. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.
- IFRS 9 'Financial Instruments', issued July 2014 and effective for financial years beginning on or after 1 January 2018. This standard replaces IAS 39 'Financial instruments: Recognition and Measurement' and contains new requirements for the recognition and measurement of financial assets and liabilities, the recognition of impairment, and hedge accounting. This standard is expected to have a significant impact on CYBG Group in line with the wider industry.

Classification and measurement

The revised recognition and measurement approach will lead to CYBG Group's financial assets being classified as either amortised cost, fair value through other comprehensive income ("**FVOCI**"), or fair value through the income statement, dependent on the business model and cash flow characteristics of the financial asset. Financial liabilities will in most cases be accounted for as at present. One exception is where CYBG Group opts to fair value a financial liability, where the movement in fair value due to own credit risk would be directly recognised in other comprehensive income. CYBG Group is currently assessing the impact of these requirements.

Recognition of impairment

The impairment of financial assets under IFRS 9 will be based on an expected credit loss ("**ECL**") model rather than incurred credit loss model under IAS 39.

The key changes in CYBG Group's accounting policy for impairment of financial assets expected as a result of the implementation of IFRS 9 are listed below. CYBG Group will apply a three-stage approach to measuring ECL on debt instruments accounted for at amortised cost and

FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL: for exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised

ii) Stage 2: Lifetime ECL – not credit impaired: for credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised

iii) Stage 3: Lifetime ECL – credit impaired: financial assets will be assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, CYBG Group's methodology for specific provisions is expected to remain unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, CYBG Group will assess whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. In determining whether credit risk has increased significantly since initial recognition, CYBG Group expects to use its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

Consistent with the current impairment policy, CYBG Group will assess whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry and other relevant factors.

The amount of ECL is measured as the probability weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to CYBG Group and all the cash flows that CYBG Group expects to receive. In calculating the ECL CYBG Group will consider its historical loss experience and adjust this for current observable data. In addition, CYBG Group intends to uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. IFRS 9 introduces the use of macroeconomic factors which include, but are not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

Overall, impairment under IFRS 9 will increase the complexity of CYBG Group's impairment modelling and result in earlier recognition of credit losses than under IAS 39 which is likely to lead to an increase in total provisions.

CYBG Group's ultimate parent, NAB, early adopted IFRS 9 in relation to the impairment of credit exposures from 1 October 2014. NAB produces impairment models for CYBG Group on an IFRS 9 basis for NAB consolidated reporting. CYBG Group does not plan to early adopt any of the requirements of IFRS 9. Prior to adoption by CYBG Group, the methodology and models developed by NAB in relation to CYBG Group are being developed and assessed for consistency with emerging European guidance and market practice.

CYBG Group's governance processes and controls are being developed to integrate the revised ECL requirements into CYBG Group's risk management and financial reporting processes.

NAB has produced an impairment provision calculation for CYBG Group using an IFRS 9 ECL model, which is included in the NAB consolidated results from 1 October 2014. The day one impact of adopting the NAB ECL approach was to increase CYBG Group's total impairment provisions on assets measured at amortised cost by £59 million (unaudited). The collective impairment provision release for amortised cost assets in the current period calculated by the NAB ECL model was £16.5 million (unaudited). These figures do not capture the impact of economic overlays which are applied at the NAB consolidated level, consequently they are not necessarily indicative of the expected adoption impact of the IFRS 9 ECL model on CYBG Group.

As part of the planned Demerger and Global Offer CYBG Group will cease to book provisions on an IFRS 9 basis for NAB consolidated reporting, applying only the currently applicable credit loss standard, IAS 39. Accordingly, CYBG Group will not report an IFRS 9 outcome in future periods until it has developed its own IFRS 9 ECL model closer to the EU adoption date of the standard.

Hedge accounting

The revised hedge accounting requirements are designed to create a stronger link with financial risk management. Accounting for dynamic risk management (macro hedge accounting) has been decoupled from IFRS 9 and is now subject to a separate IASB project. IFRS 9 allows for the option to continue to apply the existing hedge accounting requirements of IAS 39 until this separate project is completed. CYBG Group is currently assessing the impact of these requirements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of CYBG Group's entities are measured using the currency of the primary economic environment in which the entity operates the "functional currency". The consolidated financial statements are presented in pounds sterling (GBP), which is CYBG Group's presentational currency, rounded to the nearest million pounds sterling (£ million) unless otherwise stated.

Transactions and balances

Initially, at the date of a foreign currency transaction, CYBG Group records an asset, liability, expense or revenue arising from a transaction using the end of day spot exchange rate between the functional and foreign currency on the transaction date.

Subsequently, at each reporting date, CYBG Group translates foreign currency monetary items at the closing rate. Foreign exchange differences arising on translation or settlement of monetary items are recognised in the income statement during the year in which the gains or losses arise. Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction. Foreign currency non-monetary items measured at fair value will be translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity. Foreign exchange differences arising from non-monetary items, whereby the associated gains or losses are recognised in the income statement, are also recognised in the income statement.

Revenue recognition

Net interest income

Interest income is reflected in the income statement using the effective interest method.

The effective interest method is a method of calculating amortisation using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) excluding future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Where it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Loan origination and commitment fees are recognised as revenue within the effective interest rate calculation. When the non-utilisation of a commitment that attracted a fee occurs, this is taken as revenue upon expiry of the agreed commitment period. Loan related administration and service fees are recognised as revenue over the period of service.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as revenue over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Fees and commissions

Fees and commissions, not integral to the effective interest rate, arising from services provided to customers and third parties are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction to which the fee relates.

Gains less losses on financial instruments at fair value through profit or loss

Gains less losses on financial instruments at fair value through profit or loss comprise fair value gains and losses from three distinct activities:

- derivatives classified as held for trading;
- hedged assets, liabilities and derivatives designated in hedge relationships; and
- financial assets and liabilities designated at fair value through profit or loss.

For trading derivatives, the full change in fair value is recognised inclusive of interest income and expense arising on those derivatives. However, in cases where a trading derivative is economically offsetting movements in the fair value of a financial asset or liability designated at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not as part of the fair value movement of the trading derivative.

Hedged assets, liabilities and derivatives designated in hedge relationships result in: (i) the recognition of fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship; and (ii) hedge ineffectiveness for both fair value and cash flow hedge relationships.

Financial assets and liabilities designated at fair value through profit or loss recognise fair value movements (excluding interest) on those items designated as fair value through profit or loss.

Interest income and interest expense on hedged assets and liabilities and financial assets and liabilities designated as fair value through profit or loss are recognised in net interest income.

Dividend income

Dividend income is recorded in the income statement on an accrual basis when CYBG Group's right to receive the dividend has been established.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it is related to items recognised in equity, in which case the tax is also recognised in equity.

Income tax expense or revenue is the tax payable or receivable on the current year's taxable income based on the applicable tax rate adjusted by changes in deferred tax assets and liabilities.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses.

Deferred tax liabilities are not recognised for temporary differences arising from investments in subsidiaries and associates where the timing of the reversal of the temporary difference is controlled by CYBG Group and it is probable that the difference will not reverse in the foreseeable future. Deferred tax assets are not recognised for temporary differences arising from investments in subsidiaries and associates where it is probable that the difference will not reverse in the foreseeable future, and it is not probable that taxable profit will be available against which the temporary difference can be utilised.

The effects of income taxes arising from asset revaluation adjustments are recognised directly in the asset revaluation reserve where relevant.

Deferred tax assets and liabilities related to fair value re-measurement of cash flow hedges, which are charged or credited directly to equity, are also credited or charged directly to equity. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. This includes cash and liquid assets and amounts due to other banks (to the extent less than 90 days).

Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements ("**repos**") are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate based upon the counterparty to the transaction.

Securities purchased under agreements to resell ("**reverse repos**") are accounted for as collateralised loans. Securities borrowed are not recognised in the financial statements unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value as a trading liability. Receivables due to CYBG Group under reverse repo agreements are normally classified as deposits with other banks or cash and cash equivalents as appropriate.

The difference between the sale and repurchase price of repos and reverse repos is treated as interest and accrued over the life of the agreements using the effective interest method.

Financial instruments

Recognition and derecognition of financial instruments

A financial asset or a financial liability is recognised on the balance sheet when CYBG Group becomes party to the contractual provisions of the instrument. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

CYBG Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale securities. Management determines the classification of its financial assets at initial recognition.

CYBG Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and other financial liabilities which are measured at amortised cost subsequent to initial recognition.

CYBG Group derecognises a financial asset when the contractual cash flows from the asset expires or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred.

A financial liability is derecognised from the balance sheet when CYBG Group has discharged its obligation to the contract, or the contract is cancelled or expires.

Offsetting financial instruments

A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet if, and only if, CYBG Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments designated at fair value through profit or loss

Purchases and sales of financial assets classified within fair value through profit or loss are recognised on trade date, being the date that CYBG Group is committed to purchase or sell a financial asset.

Upon initial recognition, financial assets and liabilities may be designated as held at fair value through profit or loss and are initially recognised at fair value, with transaction costs being recognised in the income statement immediately. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise. Items held at fair value through profit or loss comprise both items classified as held for trading and items specifically designated as fair value through profit or loss at initial recognition.

Restrictions are placed on the use of the designated fair value option and the classification can only be used in the following circumstances:

- if a host contract contains one or more embedded derivatives, CYBG Group may designate the entire contract as being held at fair value;
- designating the instruments will eliminate or significantly reduce measurement or recognition inconsistencies (i.e. eliminate an accounting mismatch) that would otherwise arise from measuring related assets or liabilities on a different basis; or
- assets and liabilities are both managed and their performance is evaluated on a fair value basis in accordance with documented risk management and investment strategies.

Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Financial assets available for sale

Financial assets available for sale can be listed or unlisted and are non-derivative financial assets that are designated as available for sale and are not classified into any of the categories of: (i) fair value through profit or loss; or, (ii) loans and receivables.

Consistent with financial assets classified as fair value through profit or loss CYBG Group applies trade date accounting to purchases and sales of financial assets available for sale.

Financial assets available for sale are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale or impairment when the cumulative gain or loss is transferred to the income statement.

Interest income is determined using the effective interest method. Impairment losses and translation differences on monetary items are recognised in the income statement within the year in which they arise. Financial assets available for sale are derecognised when the rights to receive cash flows have expired or CYBG Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

All other financial liabilities are measured at amortised cost using the effective interest method.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, CYBG Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where no such active market exists for the particular asset or liability, CYBG Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price which represents the fair value of the consideration given or received unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, CYBG Group recognises profits or losses on the transaction date.

The carrying value of financial assets at fair value through profit or loss reflects the credit risk attributable to the counterparty. Changes in the credit profile of the counterparty are reflected in the fair value of the asset and recognised in the income statement.

Derivative financial instruments and hedge accounting

All derivatives are recognised on the balance sheet at fair value on trade date and are classified as trading except where they are designated as part of an effective hedge relationship. The carrying value of a derivative is measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. CYBG Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge); or hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge). Hedge accounting is used for derivatives designated in this way providing certain criteria are met.

CYBG Group makes use of derivative instruments to manage exposures to interest rates and foreign currency, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, CYBG Group applies hedge accounting for transactions which meet the specified criteria.

CYBG Group documents, at the inception of a transaction, the relationship between hedging instruments and the hedged items, and CYBG Group's risk management objective and strategy for undertaking these hedge transactions. CYBG Group documents how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an on – going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80 per cent. to 125 per cent.

Fair value hedge

The carrying value of the hedged item on initial designation is adjusted for the fair value attributable to the hedged risk. Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in the fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis over the remaining period of the original hedge relationship.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Specifically, the separate component of equity is adjusted to the lesser of the cumulative gain or loss on the hedging instrument; and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- the derivative is held for purposes of short-term profit taking; or
- the derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

In both these cases, the derivative is classified as a trading derivative and changes in the value of the derivative are immediately taken to the income statement.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as ‘available for sale’ or designated at fair value through profit or loss. They arise when CYBG Group provides money or services directly to a customer with no intention of trading the loan. Loans and advances include overdrafts, credit card lending, market rate advances, bill financing, mortgages, lease finance and term lending.

Loans and advances are initially recognised at fair value including direct and incremental transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, adjusted for impairment losses and unearned income. They are derecognised when the rights to receive cash flows have expired or CYBG Group has transferred substantially all the risks and rewards of ownership.

As noted above, in certain limited circumstances CYBG Group applies the fair value measurement option to financial assets. This option is applied to loans and advances where the inherent market risk (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at fair value through profit or loss to offset the movements in the fair value of the derivative within the income statement and therefore avoid accounting mismatch. When this option is applied the asset is included within other financial assets at fair value and not within loans and advances. When a loan is held at fair value, a statistical – based calculation is used to estimate expected losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value.

Impairment of financial assets other than fair value loans

CYBG Group assesses at each balance sheet date whether there is evidence that a financial asset or a portfolio of financial assets that is not carried at fair value through profit or loss is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date, and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

CYBG Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If CYBG Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure and any costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, CYBG Group uses its experienced judgement to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model deficiencies and systemic risks where appropriate and supported by historic loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related provision. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured and may also be disclosed as forbearance if the customer is experiencing, or is about to experience, difficulties in meeting their financial commitments to CYBG Group. Such accounts accrue interest as long as the loan performs in accordance with the restructured terms.

Equity and debt instruments – classed as available for sale

In the case of equity instruments classified as available for sale, CYBG Group seeks evidence of a significant or prolonged decline in the fair value of the security below its cost to determine whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the income statement.

Reversals of impairment of equity shares classified as available for sale are not recognised in the income statement. Increases in the fair value of equity shares classified as available for sale after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Where evidence of impairment exists, the net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt securities classified as available for sale are recognised in the income statement.

Assets and liabilities classified as held for sale

On 30 April 2012, CYBG Group announced its intention to transfer the vast majority of its commercial property assets to NAB.

IFRS requires that groups of assets and liabilities are classified as held for sale when:

- their carrying amounts will be recovered principally through sale;
- they are available for sale in their present condition; and
- their sale is highly probable.

Accordingly, CYBG Group reclassified certain of its assets and liabilities on this basis (note 26) at 30 September 2012. The assets and liabilities were transferred at their carrying value and also fell within the scope of IAS 39 and as such continued to be measured in accordance with that standard.

Income earned and expenses incurred on assets and liabilities classified as held for sale continued to be recognised in the appropriate line items in the income statement until the transaction completed. The transaction was completed on 5 October 2012.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether:

- fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement conveys a right to use the asset.

As lessee

The leases entered into by CYBG Group as lessee are primarily operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

Sale and leaseback leases entered into by CYBG Group as lessee are primarily operating leases. Where an operating lease is established at fair value, any excess of sales proceeds over the carrying amount is recognised immediately in the income statement.

As lessor

Leases entered into by CYBG Group as lessor, where CYBG Group transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The net investment in the lease, which is comprised of the present value of the lease payments including any guaranteed residual value and initial direct costs, is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Assets under operating leases are included within property, plant and equipment at cost and depreciated over the useful life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight line basis over the life of the lease. Depreciation is recognised within depreciation expense in the income statement consistent with the nature of the asset.

Property, plant and equipment

All freehold and long-term leasehold land and buildings are revalued annually on an open market basis by the Directors to reflect current market values, based on advice received from independent valuers. In addition, full independent valuations are carried out on a three year cycle on an open market basis, including directly attributable acquisition costs but without deducting expected selling costs. For properties that are vacant, valuations are carried out on an open market basis. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

All other items of property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to acquisition.

Property, plant and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of (i) the asset's fair value less costs of disposal; and (ii) the asset's value in use.

Where a group of assets working together supports the generation of cash inflows largely independent of cash inflows from other assets or groups of assets, the recoverable amount is assessed in relation to that group of assets (a cash-generating unit).

With the exception of freehold land, all items of property, plant and equipment are depreciated or amortised using the straight-line method, at rates appropriate to their estimated useful life to CYBG Group. For major classes of property, plant and equipment, the annual rates of depreciation or amortisation are:

- buildings – 2 per cent.;
- leases (leasehold improvements) – the lower of the expected lease term and the assets useful life; and
- fixtures and equipment – 10 per cent. to 33.33 per cent.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

Goodwill and other intangibles assets

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of CYBG Group's share of the identifiable net assets at the date of the acquisition. If CYBG Group's interest in the fair value of the identifiable net assets of the acquired entity is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the excess is recognised in the income statement on acquisition date and no goodwill is recognised.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to cash generating units. Each cash generating unit or group of cash generating units to which goodwill is allocated is the lowest level within CYBG Group at which goodwill is monitored by management. Impairment is assessed by comparing the carrying amount of the cash generating unit or group of units, including the goodwill, with its recoverable amount. An impairment loss is recognised in the income statement if the carrying amount of the cash generating unit or group of units is greater than its recoverable amount. Impairment losses recognised for goodwill are not subsequently reversed.

Other intangible assets

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by CYBG Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred. Capitalised computer software costs are amortised on a straight – line basis over their expected useful lives, usually between three and eight years. Impairment losses are recognised in the income statement as incurred.

Computer software is stated at cost, less amortisation and provision for impairment, if any.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value in use.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgement is applied to identify cash generating units and they represent a group of assets that generate cash inflows that are largely independent from other assets or groups of assets.

Investments in controlled entities and associates

CYBG Group's investments in controlled entities and associates are valued at cost or valuation less any provision for impairment. Such investments are reviewed annually for impairment, or more frequently when there are indications that impairment many have occurred. Losses relating to impairment in the value of shares in controlled entities and associates are recognised in the income statement.

Investment properties

These are properties (land or buildings, or part of a building, or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment property assets are carried at fair value, with fair value increments and decrements taken to the income statement in the year in which they arise. Investment property assets are revalued annually by the Directors to reflect fair values. Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis being the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date. Newly acquired investment property assets are held at cost (i.e. equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding twelve months.

Property inventory

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of past events, it is probable that an outflow of economic benefits will be necessary to settle the obligation, and the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

Pension and post retirement costs

Employees of CYBG Group are entitled to benefits on retirement, disability or death from CYBG Group's pension plans. CYBG Group operates both defined benefit and defined contribution pension schemes.

Defined contribution pension scheme (the "DC Scheme")

The DC Scheme receives fixed contributions from CYBG Group companies and CYBG Group's obligation for contributions to these plans is recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

Defined benefit pension scheme (the "DB Scheme")

The DB Scheme provides defined benefits based on years of service and career averaged revalued earnings for benefits accruing after 1 April 2006. A liability or asset in respect of the DB Scheme is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high quality corporate bond rates that have maturity dates approximating to the terms of CYBG Group's defined benefit obligation.

Pension expense attributable to CYBG Group's defined DB Scheme comprises current service cost, net interest on the net defined benefit obligation/(asset), past service cost resulting from a scheme amendment or curtailment, gains or losses on settlement and administrative costs incurred. CYBG Group's policy where actuarial remeasurements arise is to fully recognise such amounts directly in retained earnings through the statement of comprehensive income, in the period in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

CYBG Group also provides post-retirement health care for certain retired employees. The calculation of the post-retirement health care liability is calculated in the same manner as the defined benefit pension obligation.

Subordinated liability and related entity balances

Subordinated liabilities and related entity balances, other than derivatives, are recorded at amortised cost. Subordinated liabilities comprise undated and dated loan capital which is exclusively provided to CYBG Group by NAB. Subordinated liabilities are included within amounts due to related entities on the balance sheet.

Debt issues

Debt issues are short and long term debt issued by CYBG Group including commercial paper, notes, term loans and residential mortgage backed securities. Debt issues are typically recorded at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Interest is charged to the income statement using the effective interest method.

Financial guarantees

CYBG Group provides guarantees in the normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by CYBG Group to guarantee the performance of a customer to a third-party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of CYBG Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances.

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary. Subsequently, CYBG Group records and measures the financial guarantee contract at the higher of:

- where it is likely CYBG Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable; and
- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless they are remote.

Equity

Share option reserve

The share option reserve records the outstanding balance payable to NAB for equity benefits provided to employees and Directors as part of their remuneration including deferred tax.

Cash flow hedge reserve

The cash flow hedge reserve records the effective portion of the fair value revaluation of derivatives designated as cash flow hedging instruments.

Other equity instruments

Other equity instruments represent Additional Tier 1 (“**AT1**”) notes. These are perpetual capital notes with no fixed maturity or redemption date and are classified as equity instruments. Distributions of interest on the AT1 notes will be due and are deducted from equity on the interest payment date. The Company has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any interest payment date.

Preference shares

Preference shares are classified as an equity instrument if the instrument includes no contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

Where preference shares do not satisfy the above conditions, they are classified as a financial liability. The Company’s preference shares which were repurchased on 20 December 2013 met the criteria for classification as equity.

Dividends on ordinary and preference shares

Dividends on ordinary and preference shares classified as equity instruments are recognised as a liability and deducted from equity when they are approved by the Company’s Directors. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

Equity based compensation

CYBG Group engages in share-based payment transactions in respect of services received from certain of its employees and to provide long-term incentives. The fair value of the services received is measured by reference to the fair value of the NAB shares or share options granted on the date of the grant. This is recognised as an expense in the income statement over the relevant vesting period and results in an increase in the share option reserve which is reduced on repayment to the ultimate parent company.

The grant date fair value of shares is generally determined by reference to the weighted average price of the NAB shares in the week up to, and including, the date on which the shares are granted. Employee share plans are linked to internal performance, market performance and/or service conditions. The fair value of shares with a market performance condition is determined using a Monte Carlo simulation. The grant date fair value of the performance options and performance rights is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the exercise price of the performance options or performance rights, the expected volatility of the share price, the risk-free interest rate and the expected dividend yield on the shares for the life of the performance options and performance rights. The simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance options or performance rights.

While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares, performance options and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares, performance options and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares, performance options or performance rights that are expected to eventually vest.

Securitisation

CYBG Group has securitised certain loans (principally housing mortgage loans) by the transfer of loans to structured entities ("**SEs**") controlled by CYBG Group. The securitisation enables a subsequent issue of debt, either by Clydesdale Bank or the SE, to investors who gain the security of the underlying assets as collateral. Those SEs are fully consolidated into the accounts of CYBG Group. All such transferred loans continue to be held on CYBG Group balance sheet, and a liability recognised for the proceeds of the funding transaction as CYBG Group retains substantially all the risks and rewards.

Business combinations and disposals

(i) Combination of businesses

The acquisition method of accounting is used for business combinations other than those under common control. Consideration is measured at fair value and is calculated as the sum of the acquisition date fair value of assets transferred, liabilities incurred to former owners of the acquiree and equity instruments issued. Any excess of the sum of the consideration and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets acquired less liabilities assumed, is recognised as goodwill. Acquisition related costs are expensed as incurred.

When a non-controlling interest is present in an entity over which CYBG Group gains control, the non-controlling interest is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. This choice of accounting treatment is applied on a transaction by transaction basis. Any put and call instruments transacted concurrently with a business combination to acquire the remaining non-controlling interest are assessed to determine whether there is creation of a forward purchase agreement to acquire the remaining outstanding equity at a future date.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the carrying amount of contingent consideration are recognised either in the income statement or in equity depending on the nature of the payment.

(ii) Combination of businesses under common control

Business combinations involving entities under common control, where all combining entities are ultimately controlled by the same entity before and after the business combination, are accounted for using the predecessor values method of accounting. This involves recognising assets and liabilities of the acquired business at the predecessors' book value, without any change to reflect fair value of those assets and liabilities. Any difference between the cost of acquisition and the aggregate book value of the assets and liabilities as of the date of the transfer of the acquired entity is recorded as an adjustment to equity within the 'Capital contribution reserve'. No additional goodwill is created by the business combination.

Post-acquisition, income received and expenses incurred by the entity or entities acquired are included in the consolidated income statement on a line-by-line basis in accordance with the accounting policies set out herein.

A non-controlling interest is recognised by CYBG Group in respect of any portion of the total assets less total liabilities of an acquired entity or entities that is not owned by CYBG Group.

Earnings per share

The share capital presented in the Historical Financial Information represents the capital structure of CYBI throughout the period under review and is not the same share structure that will be in place at Admission. For this reason, earnings per share is not meaningful and has not been provided in the Historical Financial Information. Further information on the share structure at Admission can be found in Part 14: "*Additional Information*".

4. **Critical accounting estimates and judgements**

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although CYBG Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

The most significant judgement is in relation to CYBG Group's fair value loan portfolio. The most significant input impacting the carrying value of the loans other than interest rates is the future expectation of credit losses. Sensitivity analysis indicating the impact of reasonable possible changes in this input on the fair value is included within note 38.

The valuation of these financial instruments is described in more detail in note 14.

Impairment losses on loans and advances

CYBG Group reviews its individually significant loans and advances at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, CYBG Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

Loans and advances that have been assessed individually and found not to be impaired and all not individually significant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risk and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups). If the probabilities of default were to improve from those presently used within CYBG Group's provisioning models by 5 per cent., the impairment provision on loans and advances would decrease by £4 million (2014: £4 million; 2013: £5 million). Alternatively, if probabilities of default deteriorate by 5 per cent., the impairment provision on loans and advances would increase by £4 million per year (2014: £4 million; 2013: £5 million). To the extent that recovery rates improve from those presently used within each of CYBG Group's provisioning models by 5 per cent., the impairment provision on loans and advances would decrease by £10 million per year (2014: £12 million; 2013: £15 million; 2012: £14 million). Alternatively, if recovery rates deteriorate by 5 per cent., the impairment provision on loans and advances would increase by £19 million per year (2014: £20 million; 2013: £24 million; 2012: £24 million). There are interactions between the various assumptions within the provisioning models, which mean that no single factor is likely to move independent of others; however, the sensitivities disclosed above assume all other assumptions remain unchanged.

The impairment loss on loans and advances is disclosed in more detail in note 17.

PPI redress provision and other conduct related matters

Disclosures in relation to CYBG Group's PPI redress provision can be found in note 29 with CYBG Group holding a provision of £774 million at 30 September 2015 (2014: £515 million; 2013: £152 million; 2012: £108 million). Significant judgement by management is required in determining the key assumptions used to estimate the quantum of the provision, including the level of complaint volumes (both historical and estimated future complaint volumes), uphold rates (how many claims are, or may be, upheld in the customer's favour) and redress costs (the average payment made to customers). Also factored into the estimate is the effect of the past business review ("**Past Business Review**") and judgements made around customer mailing response rates. The provision is therefore subject to inherent uncertainties as a result of the subjective nature of the assumptions used in quantifying the overall estimated position. Consequently, the provision calculated may be subject to change in future years as a result of the emergence of new trends in relation to the judgements and assumptions which differ to those currently used. Sensitivity analysis indicating the impact of reasonable possible changes in key assumptions on the PPI provision is included within note 29.

There are similar uncertainties and judgements for other conduct risk related matters, including CYBG Group's IRHP/FRTBL, disclosed in note 29 however the level of liability is materially lower.

Retirement benefit obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details on the assumptions used and sensitivity analysis on the key assumptions are provided in note 31.

Deferred tax assets

Disclosures in relation to CYBG Group's deferred tax assets of £379 million (2014: £339 million; 2013: £266 million; 2012: £266 million) can be found in note 24. CYBG Group has assessed the recoverability of these deferred tax assets and considers it probable that sufficient future taxable profits will be available against which the underlying deductible temporary differences can be utilised. CYBG Group has made this assessment with reference to the latest available profit forecasts. The largest deferred tax asset held within CYBG Group relates to trading losses carried forward. These tax losses carried forward have been assessed for recoverability against CYBG Group's forecasts which include adjustments for future strategic changes, the future economic outlook and regulatory change. Current UK tax legislation does not specify a maximum forecast horizon to utilise losses; CYBG Group expects the assets to be recovered in the reasonably foreseeable future.

5. ***Segment information***

CYBG Group's operating segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the entity's Chief Operating Decision Maker, the Chief Executive Officer.

CYBG Group's business is organised into two principal operating segments: SME Banking (formally referred to as "Business and Private") and Retail Banking.

The Central Functions of CYBG Group consist of: Customer Trust & Confidence, Finance, Risk, Operations & IT, Legal & Governance, CEO Office Support, Customer Experience, Products & Marketing, Strategy & Transformation, Treasury and People & Communications.

"Other" reflects certain elements of expenditure that are not recharged to CYBG Group's two principal operating segments such as conduct-related provisions and restructuring costs.

SME Banking

CYBG Group's established regional SME franchise offers a full range of business banking products and services to meet their banking needs across its Business Direct, small business, commercial and specialist and acquisition finance segments.

CYBG Group's SME franchise is comprised of micro businesses (which CYBG Group defines as businesses with no lending outstanding and turnover of less than £120,000), Business Direct (which CYBG Group defines as businesses with outstanding lending of less than £0.1 million and turnover of less than £750,000), small businesses (which CYBG Group defines as businesses with lending of £0.1 million to £0.25 million and greater than £750,000 but less than £2.0 million in turnover) and commercial businesses (which CYBG Group defines as businesses with lending of higher than £0.25 million and greater than £2.0 million in turnover). Across all business segments, CYBG Group provides working capital solutions to business customers through asset finance, invoice finance, international trade, merchant acquiring and treasury services.

CYBG Group offers a full range of lending products and services across a portfolio consisting of term lending, overdrafts and working capital solutions through its SME franchise:

- Term lending: CYBG Group offers a wide variety of term loans, both secured and unsecured, and offers customers a range of repayment and interest rate options. The majority of CYBG Group's business term lending is LIBOR based;
- Overdrafts: business overdrafts are the primary type of revolving variable rate credit facility offered by CYBG Group to business customers;
- Invoice finance: CYBG Group advances funds against the customer's trade receivables;
- Asset finance: these products provide a method of financing capital equipment purchases;
- International trade services: these products facilitate transactions between a buyer and seller located in different countries. CYBG Group offers import loans, export loans, documentary collections and currency guarantees, together with letters of credit for securing trade.
- Private banking: a fee-based service targeted at higher net worth customers, primarily business owners, providing tailored solutions to meet their financial requirements.

Retail Banking

CYBG Group has a comprehensive regional and national retail banking product proposition with a personal deposit portfolio comprising personal current accounts ("**PCA**"), savings accounts, and term deposits. CYBG Group's retail loan portfolio is comprised of mortgages, personal loans, credit cards and overdrafts:

- PCA: a stable source of funding with a large number of PCA customers having a tenure with CYBG Group of more than ten years;
- Savings accounts: CYBG Group offers a variety of savings accounts that pay a variable rate of interest. It also offers cash ISAs with competitive rates that offer depositors tax free returns;
- Term deposits (sometimes referred to as "fixed rate savings accounts" or "time deposits") offer a fixed interest rate for a fixed term;
- Mortgages: CYBG Group provides mortgage loans on a capital repayment basis, where the loan is required to be repaid during its life, and on an interest-only basis, where the customer pays interest during the term of the mortgage loan with the principal balance required to be repaid in full at maturity. CYBG Group offers both owner-occupied mortgage loans (pursuant to which the borrower is the owner and occupier of the mortgaged property) and buy-to-let ("**BTL**") loans (pursuant to which the borrower intends to let the mortgaged property);
- Personal loans: CYBG Group provides unsecured personal loans through its branch network to retail and private banking customers and through its digital and telephone distribution channels;
- Credit cards: CYBG Group currently offers three credit card products, Private MasterCard, Business MasterCard and Gold MasterCard;

- Overdrafts: CYBG Group provides overdraft lending across a variety of PCA products, subject to the account holder's status. Overdrafts comprise both planned and unplanned borrowing.

Major customers

Revenues from no one single customer amount to greater than 10 per cent. of CYBG Group's revenues.

Geographical areas

CYBG Group has no material operations outside the UK and therefore no secondary geographical area information is presented.

Operating segments Year to 30 September 2015	**SME Banking**	**Retail Banking**	**Central functions**	**Other**	**Total**
			£m		
Net interest income	274	461	52	—	787
Non-interest income	77	94	6	63	240
Operating income	351	555	58	63	1,027
Operating and administrative expenses	(82)	(116)	(529)	(507)	(1,234)
Impairment losses on credit exposures[1]	(45)	(33)	—	—	(78)
Segment operating profit/(loss) before tax	224	406	(471)	(444)	(285)
Average interest-earning assets	**10,908**	**17,400**	**7,472**	**—**	**35,780**

(1) The impairment losses on credit exposure figure for Retail Banking includes losses on certain retail products attributable to SME (private banking) customers.

Operating segments Year to 30 September 2014	**SME Banking**	**Retail Banking**	**Central functions**	**Other**	**Total**
			£m		
Net interest income	308	453	24	—	785
Non-interest income	75	105	17	—	197
Operating income	383	558	41	—	982
Operating and administrative expenses	(80)	(138)	(468)	(456)	(1,142)
Impairment losses on credit exposures	(46)	(28)	—	—	(74)
Segment operating profit/(loss) before tax	257	392	(427)	(456)	(234)
Average interest-earning assets	**12,200**	**14,984**	**6,888**	**—**	**34,072**

Operating segments Year to 30 September 2013	**SME Banking**	**Retail Banking**	**Central functions**	**Other**	**Total**
			£m		
Net interest income	335	410	23	—	768
Non-interest income	85	123	(18)	—	190
Operating income	420	533	5	—	958
Operating and administrative expenses	(90)	(155)	(438)	(180)	(863)
Impairment losses on credit exposures	(102)	(42)	—	—	(144)
Segment operating profit/(loss) before tax	228	336	(433)	(180)	(49)
Average interest-earning assets	**13,509**	**13,346**	**8,405**	**—**	**35,260**

Operating segments Year to 30 September 2012	**SME Banking**	**Retail Banking**	**Central functions**	**Other**	**Total**
			£m		
Net interest income	476	402	(1)	—	877
Non-interest income	112	122	(109)	130	255
Operating income	588	524	(110)	130	1,132
Operating and administrative expenses	(139)	(155)	(435)	(469)	(1,198)
Impairment losses on credit exposures	(698)	(39)	—	—	(737)
Segment operating profit/(loss) before tax	(249)	330	(545)	(339)	(803)
Average interest-earning assets	**20,623**	**12,151**	**9,594**	**—**	**42,368**

The components of the 'Other' segment are £390 million for PPI redress expense (2014: £420 million, 2013: £130 million, 2012: £120 million), £21 million for PPI handling fine (2014: £Nil, 2013: £Nil, 2012: £Nil), £75 million for IRHP/FRTBL redress expense (2014: £Nil, 2013: £Nil, 2012: £Nil), £17 million for restructuring expenses (2014: £Nil, 2013: £Nil, 2012: £149 million), £10 million for separation costs (2014: £Nil, 2013: £Nil, 2012: £Nil), £63 million for gain on capital and debt restructure (2014: £Nil, 2013: £Nil, 2012: £Nil), £2 million loss on capital restructuring (2014: £Nil, 2013: £Nil, 2012: £Nil), £18 million for pension increase exchange gain (2014: £Nil, 2013: £Nil, 2012: £Nil), £10 million of impairment of goodwill and intangible assets (2014: £23 million, 2013: £Nil, 2012: £177 million), £Nil of pension scheme reforms benefit (2014: £Nil, 2013: £Nil, 2012: £130 million), and £Nil of other conduct expenses (2014:£13 million, 2013: £50 million, 2012: £23 million).

6. ***Net interest income***

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Interest income and similar income				
Loans and advances to other banks	28	25	31	27
Financial assets available for sale	8	8	8	13
Loans and advances to customers	1,033	1,052	1,100	1,271
Financial assets at fair value through profit or loss	37	45	64	129
Due from related entities (note 12)	3	4	5	14
Other interest income	1	1	1	7
Total interest income and similar income	**1,110**	**1,135**	**1,209**	**1,461**
Less: Interest expense and similar charges				
Due to other banks	5	5	2	6
Financial liabilities at fair value through profit or loss	1	1	2	2
Due to customers	195	212	305	347
Bonds and notes	82	81	75	53
Due to related entities (note 12)	40	50	57	176
Other interest expense	—	1	—	—
Total interest expense and similar charges	**323**	**350**	**441**	**584**
Net interest income	**787**	**785**	**768**	**877**

7. ***Non-interest income***

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Gains less losses on financial instruments at fair value				
Interest rate derivatives	29	47	148	(19)
Other assets and liabilities at fair value	(29)	(64)	(172)	(114)
Ineffectiveness arising from fair value hedges (note 15)	1	7	(8)	(12)
Ineffectiveness arising from cash flow hedges (note 15)	1	2	(3)	1
	2	**(8)**	**(35)**	**(144)**
Other operating income				
Fees and commission	144	164	185	218
Margin on foreign exchange derivative brokerage	19	19	21	21
Net fair value movement on investment properties	(1)	—	—	(7)
Gain on disposal of tangible fixed assets[(1)]	—	7	1	10
Other income	76	15	18	157
	238	**205**	**225**	**399**
Total non-interest income	**240**	**197**	**190**	**255**

(1) Tangible fixed assets include property, plant and equipment, investment properties and property inventory.

In December 2014, £650 million of Tier 2 subordinated debt issued was also redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as being impacted by the introduction of a 25 per cent. capital limit under Pillar 2A. These instruments were replaced by an issue of £350 million of ordinary shares and issues of Additional Tier 1 capital instruments of £150 million to the ultimate parent. As a result of the redemptions in the year ended 30 September 2015, other income includes gains of £61 million arising on capital restructures during the year and a further gain of £2 million on early redemption of medium term funding on 30 September 2015, resulting in total gains of £63 million. A loss of £2 million arising on capital restructures is included in related entity charges (notes 8 and 12).

The movement in fair value of assets incorporates valuation movements for certain financial assets which are designated at inception as fair value through profit or loss.

These assets are predominantly fixed interest rate loans which are measured at fair value. The movements in fair value are taken through the income statement as part of non-interest income. The fair value of these loans is derived from the future loan cash flows using appropriate discount rates and includes adjustments for credit risk and credit losses. In general, as interest rates fall, the carrying value of the loan portfolio increases. Conversely, as interest rates rise, the carrying value of the loan portfolio decreases. The valuation technique used is reflective of current market practice.

8. ***Operating and administrative expenses***

	Year ended 30 September			
	2015	2014	2013	2012
		£m		
Personnel expenses				
Salaries, wages and non-cash benefits	175	173	185	203
Related personnel expenses	22	22	21	23
Defined contribution pension expense	16	14	13	15
Defined benefit pension expense (note 31)	11	29	40	36
Equity based compensation	7	7	4	11
Other personnel expenses	35	42	39	41
	266	**287**	**302**	**329**
Restructuring				
Restructuring expenses (note 29)	17	—	—	149
Depreciation and amortisation expense				
Depreciation of property, plant and equipment (note 19)	26	24	24	23
Amortisation of intangible assets (note 23)	57	54	52	52
	83	**78**	**76**	**75**
Other operating and administrative expenses				
Operating lease rental	32	31	32	38
Other occupancy charges	38	39	42	42
Related entity charges (note 12)	20	8	1	17
Impairment losses on goodwill (note 23)	—	—	—	141
Impairment losses on software (note 23)	10	23	—	36
PPI redress expenses (note 29)	390	420	130	120
IRHP/FRTBL redress expenses (note 29)	75	—	—	—
Other conduct expenses (note 29)	—	13	50	23
Other operating and administrative expenses	303	243	230	228
	868	**777**	**485**	**645**
Total operating and administrative expenses	**1,234**	**1,142**	**863**	**1,198**

Other operating and administrative expenses include the FSCS levy charge of £14 million (2014: £13 million; 2013 £11 million; 2012 £10 million).

On 14 April 2015, the FCA issued Clydesdale Bank with a fine of £21 million for failings in its PPI complaint handling processes between May 2011 and July 2014. This amount is recorded within other operating and administrative expenses for the year ended 30 September 2015 (2014: £nil; 2013: £nil; 2012: £nil).

During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member can elect to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. Accounting for this change has resulted in a credit to the income statement of £18 million, resulting in a reduction in the defined benefit pension expense to £11 million (2014: £29 million).

Related entity charges for the year ended 30 September 2015 includes a loss on capital restructuring of £2 million (2014: £nil; 2013: £nil, 2012: £nil).

Separation costs of £8 million and £2 million (2014: £nil; 2013: £nil, 2012: £nil) are included within other operating and administrative expenses and personnel expenses, respectively.

Auditor's remuneration

Included within other operating and administrative expenses:

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£k		
Audit of financial statements	242	242	242	230
Other fees to the auditor:				
Audit of CYBG Group pension scheme	75	75	75	75
Local statutory audits for subsidiaries	1,139	1,453	1,635	1,424
Other assurance including regulatory compliance based work	1,982	141	141	262
	3,438	**1,911**	**2,093**	**1,991**

Included within other assurance is £1,926,000 in respect of assurance work related to the Demerger and Global Offer (2014: £nil; 2013: £nil, 2012: £nil), which has been paid by NAB.

9. *Taxation*

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Current tax				
UK corporation tax				
Current year	(2)	21	10	(32)
Adjustment in respect of prior years	(21)	(1)	(5)	1
Other overseas taxation	—	—	—	3
	(23)	**20**	**5**	**(28)**
Deferred tax (note 24)				
Current year	(43)	(60)	(9)	(124)
Adjustment in respect of prior years	6	(4)	(1)	(4)
	(37)	**(64)**	**(10)**	**(128)**
Tax credit for the year	**(60)**	**(44)**	**(5)**	**(156)**

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20.5 per cent. (September 2014: 22.0 per cent.; September 2013: 23.5 per cent.; September 2012: 25.0 per cent.). A reconciliation from the credit implied by the standard rate to the actual tax credit is as follows:

	Year ended 30 September			
	2015	2014	2013	2012
		£m		
Loss on ordinary activities before tax	**(285)**	**(234)**	**(49)**	**(803)**
Tax credit based on the standard rate of corporation tax in the UK of 20.5 per cent. (comparatives above)	(58)	(51)	(12)	(201)
Effects of:				
Expenses not deductible for tax purposes	8	3	4	41
AT1 distribution paid	(4)	—	—	—
Non-deductible FCA fine	4	—	—	—
Deferred tax on losses not recognised	16	—	—	—
Regulatory capital and debt restructuring	(12)	—	—	—
Income not taxable	—	—	—	—
Bank levy	—	—	—	1
Chargeable gains	—	3	—	(2)
Rate differences	1	6	9	6
Adjustments in respect of prior years	(15)	(5)	(6)	(3)
Other	—	—	—	2
Tax credit for the year	**(60)**	**(44)**	**(5)**	**(156)**

The net gain on capital and debt restructuring of £61 million (note 7) for the year to 30 September 2015 is not subject to taxation and has reduced CYBG Group's effective tax rate for the year.

The Finance (No. 2) Act limits the tax-deductibility of payments by banks for compensation for mis-selling. The restriction applies from 8 July 2015. The Finance (No. 2) Act was not substantively enacted at the balance sheet date and therefore the restriction cannot be reflected in calculating the current period corporation tax credit. Had the legislation been substantively enacted, it is estimated that the impact of the non-deductibility of PPI and conduct charges incurred after 8 July 2015 would result in a reduction in the tax credit of approximately £17 million.

10. ***Dividends paid***

	30 September			
	2015	2014	2013	2012
		£m		
AT1 distributions paid	18	—	—	—
Preference share dividends	—	—	—	6
Dividends paid	**18**	**—**	**—**	**6**

During the year ended 30 September 2012 the Company paid a preference share dividend of £6 million (6.0 pence per share).

11. ***Cash and balances with central banks***

	30 September			
	2015	2014	2013	2012
		£m		
Cash assets	1,452	1,317	1,212	1,127
Balances with central banks (including EU payment systems)	4,979	4,669	5,508	6,800
	6,431	**5,986**	**6,720**	**7,927**
Less mandatory deposits with central banks[(1)]	(44)	(42)	(43)	(31)
Included in cash and cash equivalents (note 36)	**6,387**	**5,944**	**6,677**	**7,896**

(1) Mandatory deposits are not available for use in CYBG Group's day to day business and are non interest-bearing.

12. ***Related party transactions***

The ultimate parent undertaking, and ultimate controlling party is NAB, a company incorporated in the State of Victoria, Australia. NAB also heads the largest group in which the results of CYBG Group are consolidated. The immediate parent of the Company is National Equities Limited, a company incorporated in the State of Victoria, Australia.

During the year, there have been transactions between CYBG Group, its ultimate parent, controlled entities of the ultimate parent, controlled entities of CYBG Group, and other related parties.

CYBG Group provides a range of services to related parties, including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance, foreign exchange and interest cover.

CYBG Group receives a range of services from the ultimate parent and related parties, including loans and deposits, foreign exchange and interest rate cover and various technical and administrative services.

	30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Amounts due from related entities				
Loans				
Ultimate parent	672	1,104	1,278	1,215
Controlled entities of the ultimate parent	1	—	—	—
	673	1,104	1,278	1,215
Other receivables				
Ultimate parent	110	368	96	34
Controlled entities of the ultimate parent	3	15	16	7
	113	**383**	**112**	**41**
Total amounts due from related entities	**786**	**1,487**	**1,390**	**1,256**
Interest income on the above amounts was as follows:				
Ultimate parent	**3**	**4**	**5**	**14**

	30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Amounts due to related entities				
Deposits				
Ultimate parent	24	987	1,334	5,977
Controlled entities of the ultimate parent	101	110	100	100
	125	**1,097**	**1,434**	**6,077**
Bonds and notes				
Ultimate parent (note 18)	382	410	442	475
Subordinated liabilities				
Ultimate parent	478	787	782	782
Immediate parent	—	344	343	343
	478	**1,131**	**1,125**	**1,125**
Other payables				
Ultimate parent	3	36	22	23
Immediate parent	—	—	1	2
Controlled entities of the ultimate parent	10	3	12	14
	13	**39**	**35**	**39**
Total amounts due to related entities	**998**	**2,677**	**3,036**	**7,716**
Interest expense on the above amounts was as follows (note 6):				
Ultimate parent	36	43	50	166
Immediate parent	1	4	4	6
Controlled entities of the ultimate parent	3	3	3	4
	40	**50**	**57**	**176**

On 30 September 2015, Clydesdale Bank redeemed £429 million of medium term notes with NAB early, resulting in a gain of £2 million. The gain is included within other income (note 7) along with other capital restructuring gains of £61 million.

Derivatives

The following derivative positions are held with the ultimate parent:

	30 September 2015	2014	2013	2012
		£m		
Derivative financial assets				
Designated as hedging instruments	86	13	7	197
Designated as held for trading	60	75	95	179
	146	**88**	**102**	**376**
Derivative financial liabilities				
Designated as hedging instruments	173	245	204	188
Designated as held for trading	263	278	412	710
	436	**523**	**616**	**898**

Subordinated liabilities

Subordinated liabilities comprise undated and dated loan capital which is provided to CYBG Group by NAB. Interest on the loans is payable at rates related to the LIBOR. The undated loans are subject to five years and one day's notice of redemption by the lenders and are repayable at par. Early repayment is at the option of the borrower, subject to the prior consent of the PRA. The loans are subordinated to the claims of other creditors and are unsecured. The loans are employed in the general business of CYBG Group.

Details of subordinated liabilities in excess of 10 per cent. of the total balance of the subordinated loans of CYBG Group are disclosed below. The rates of interest stated below apply at 30 September:

	30 September 2015	2014	2013	2012
		£m		
10 year, non-call 5 year with a final maturity of 20 December 2023				
- LIBOR +3.41%	300	300	300	300
10 year, non-call 5 year with a final maturity of 25 January 2021				
- LIBOR + 4.42%	175	250	250	250
Undated subordinated notes – LIBOR + 0.25%	—	285	285	285
Undated subordinated notes – LIBOR + 0.48%	—	258	258	258
	475	**1,093**	**1,093**	**1,093**
Other subordinated debt	—	32		
Accrued interest payable	3	6	32	32
Total subordinated liabilities	**478**	**1,131**	**1,125**	**1,125**

On 29 December 2014, CYBG Group repaid its £232 million of subordinated liabilities to its ultimate parent at a market value of £206 million, resulting in a gain on capital restructure of £26 million included within other income. A further £343 million was repaid to the immediate parent at a market value of £308 million, resulting in a gain of £35 million. The combined gain on capital restructuring of £61 million is reflected in note 7. CYBG Group also repaid £75 million subordinated liabilities to the ultimate parent at a market value £77 million, resulting in a loss on capital restructure of £2 million included within other operating and administrative expenses – ultimate parent (note 8).

Securitisation

CYBG Group has securitised part of its residential mortgage portfolio, and the cash raised from the issue of RMBS through structured entities forms part of CYBG Group's medium-term funding. A portfolio of buy to let mortgages has been securitised through the Lannraig Master Trust Issuer programme and a total of £382 million (30 September 2014: £410 million; 2013: £442 million; 2012: £475 million) of the securities issued are held by CYBG Group's ultimate parent (includes accrued interest).

Other transactions with related entities

	30 September			
	2015	2014	2013	2012
	£m			
Gain on debt and capital restructure (note 7)	**63**	**—**	**—**	**—**
Non-interest income received				
Ultimate parent	5	5	6	8
Controlled entities of the ultimate parent	5	6	7	10
	10	**11**	**13**	**18**
Other operating and administrative expenses (note 8)				
Ultimate parent	11	5	(2)	13
Controlled entities of the ultimate parent	9	3	3	4
	20	**8**	**1**	**17**

Offset within administrative expenses paid to the ultimate parent, from October 2012, are amounts received by CYBG Group in relation to expenses incurred in the provision of services to the NAB UK CRE portfolio. The amount received is reducing as the portfolio reduces.

*Compensation of key management personnel ("**KMP**")*

For the purposes of IAS 24 'Related party disclosures', KMPs comprise Directors of the Company, members of the CYB Leadership Team and PRA approved persons with a control function of 1 to 29.

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Other transactions with related entities				
Salaries and other short-term benefits	10	10	10	11
Share based payments	1	2	—	3
	11	**12**	**10**	**14**

Transactions with key management personnel

KMPs, their close family members and any entities controlled or significantly influenced by the KMPs have undertaken the following transactions with CYBG Group in the normal course of business. The transactions were made on the same terms and conditions as applicable to other CYBG Group employees, or on normal commercial terms.

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Loans and advances	11	1	2	5
Deposits	1	—	1	1

No provisions have been recognised in respect of loans provided to KMPs in any year. There were no debts written off or forgiven in any year. Included in the above are ten (30 September 2014: twelve; 2013: six; 2012: seven) loans totalling £9.5 million (30 September 2014: £0.1 million; 2013: £0.9 million; 2012: £1.6 million) made to Directors.

In addition to the above, there are guarantees of £0.4 million (30 September 2014: £Nil; 2013: £Nil; 2012: £Nil) made to Directors and their related parties.

Other related party transactions

CYBG Group incurred costs in relation to pension scheme administration. These costs, which amounted to £0.6 million in the year ended 30 September 2015 (30 September 2014: £0.5 million;

2013: £0.3 million; 2012: £0.3 million) were charged to the CYBG Group sponsored DB Scheme. CYBG Group has deposits of £2.1 million (30 September 2014: £3.4 million; 2013: £4.5 million; 2012: £3.1 million) at the year end placed by the DB Scheme at market rates.

Pension contributions of £51 million (30 September 2014: £252 million; 2013: £134 million; 2012: £242 million) were made during the year to the Yorkshire and Clydesdale Bank DC Scheme sponsored by CYBG Group (see note 31).

CYBG Group

As announced on 7 May 2015 and confirmed on 28 October 2015, NAB intends to pursue the Demerger and Global Offer of CYBG Group. Further detail on the implication of this can be found in note 41.

Related party balances with non NAB related entities

In addition to the balances with NAB related entities, CYBG Group also has a £3 million (2014: £Nil) term deposit balance due to CYBG Group's associated entity (note 22) on normal commercial terms. The balance is disclosed within due to customers (note 28).

13. Financial assets available for sale

	30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Listed securities	1,447	1,161	968	1,034
Unlisted securities	8	7	7	7
Other financial assets	7	—	—	—
	1,462	**1,168**	**975**	**1,041**

Included in the available for sale ("**AFS**") listed securities are £1.34 billion (30 September 2014: £1.06 billion; 2013: £0.87 billion; 2012: £0.93 billion) in UK Government gilts and £0.1 billion (30 September 2014: £0.1 billion; 2013: £0.1 billion; 2012: £0.1 billion) in other banks' debt securities.

£Nil (30 September 2014: £646 million; 2013: £51 million; 2012: £Nil) of AFS securities were encumbered under sale and repurchase agreements (see note 28 for details of the associated liabilities). These assets were not derecognised as CYBG Group retained substantially all the risks and rewards of ownership.

In addition to the above, AFS listed securities includes items with a carrying value of £Nil (30 September 2014: £232 million; 2013: £217 million; 2012: £160 million) which have been pledged as collateral under UK payment schemes.

The other AFS financial asset of £7 million represents deferred consideration receivable and consists of the rights to future commission. These were recognised by CYBG Group upon the acquisition of CYB Intermediaries Holdings Limited from its ultimate parent on 30 September 2015 (note 22).

The listed AFS investments are classified as Level 1 in the fair value hierarchy, with the unlisted AFS investments and other AFS financial assets classified as Level 3 (note 38).

	30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Credit quality of investments				
Available for sale				
Senior investment grade	1,447	1,161	968	1,034
Other	15	7	7	7
	1,462	**1,168**	**975**	**1,041**

14. Other financial assets and liabilities at fair value

	30 September			
	2015	2014	2013	2012
	£m			
Other financial assets at fair value through profit or loss				
Loans and advances	1,097	1,570	2,155	2,791
Accrued interest receivable	—	13	16	29
Total loans and advances	**1,097**	**1,583**	**2,171**	**2,820**
Not included in the above				
Total assets classified as held for sale (note 26)	**—**	**—**	**—**	**1,475**
Other financial liabilities at fair value through profit or loss				
Due to customers – term deposits	67	88	120	147
Accrued interest payable	—	3	3	2
Total due to customers – term deposits	**67**	**91**	**123**	**149**

Derivatives which do not meet the requirements for hedge accounting and that are related to loans held at fair value through profit or loss are accounted for as held for trading derivative financial instruments (note 15).

Loans and advances

Included in other financial assets at fair value is a portfolio of loans. Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £1,097 million (30 September 2014: £1,583 million; 2013: £2,171 million; 2012: £2,820 million). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £38 million (30 September 2014: £74 million; 2013: £77 million; 2012: £82 million) and the change for the current year is a gain of £36 million (30 September 2014: gain of £3 million; 2013: gain of £5 million; 2012: loss of £75 million).

CYBG Group ceased further sales of this suite of loan products with effect from 30 April 2012 with the loans being classified as Level 3 in the fair value hierarchy (note 38).

Due to customers – term deposits

Included in other financial liabilities at fair value are fixed rate deposits which have been hedged with interest rate derivative contracts with matching cash flows.

The change in fair value attributable to changes in CYBG Group's credit risk is £Nil (2014: £Nil). CYBG Group is contractually obligated to pay £4 million (30 September 2014: £8 million; 2013: £10 million; 2012: £16 million) less than the carrying amount at maturity to the deposit holder.

The term deposits are classified as Level 3 in the fair value hierarchy (note 38).

15. Derivative financial instruments

CYBG Group uses derivatives for risk mitigation purposes and does not have a trading book. However, derivatives that do not meet the hedging criteria within IAS 39, or those for which hedge accounting is not desirable, are accounted for as held for trading, although they are used for risk mitigation purposes. The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading.

	30 September			
	2015	2014	2013	2012
	£m			
CYBG Group				
Fair value of derivative financial assets				
Designated as hedging instruments	103	13	7	197
Designated as held for trading	182	207	237	440
	285	**220**	**244**	**637**
Not included in the above				
Assets classified as held for sale	—	—	—	(4)
Fair value of derivative financial liabilities				
Designated as hedging instruments	244	245	204	188
Designated as held for trading	290	303	447	765
	534	**548**	**651**	**953**
Not included in the above				
Liabilities associated with assets held for sale (note 26)	—	—	—	142

The derivative financial instruments held by CYBG Group are further analysed below with the notional contract amount being the amount from which the cash flows from the derivative contracts are derived and is not an indication of the amounts at risk relating to these contracts.

Total derivative contracts as at 30 September 2015	Notional contract amount	Fair value of assets	Fair value of liabilities
		£m	
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	16,655	46	76
Cross currency swaps	843	8	53
	17,498	54	129
Fair value hedges			
Interest rate swaps	1,452	35	115
Cross currency swaps	499	14	—
	1,951	49	115
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	1,990	47	38
Cross currency swaps	150	5	5
Options	273	2	2
	2,413	54	45
Interest rate related contracts			
Swaps	2,084	105	217
Swaptions	67	—	1
Options	706	1	5
	2,857	106	223
Commodity related contracts	160	22	22
Total derivative contracts	**24,879**	**285**	**534**

Total derivative contracts as at 30 September 2014	Notional contract amount	Fair value of assets	Fair value of liabilities
		£m	
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	29,355	13	86
Cross currency swaps	251	—	18
	29,606	13	104
Fair value hedges			
Interest rate swaps	1,458	—	91
Cross currency swaps	982	—	50
	2,440	—	141
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	2,423	55	40
Cross currency swaps	457	38	3
Options	520	4	4
	3,400	97	47
Interest rate related contracts			
Swaps	3,306	101	236
Swaptions	128	1	1
Options	601	4	15
	4,035	106	252
Commodity related contracts	120	4	4
Total derivative contracts	**39,601**	**220**	**548**

Total derivative contracts as at 30 September 2013	Notional contract amount	Fair value of assets	Fair value of liabilities
		£m	
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	21,050	7	49
Cross currency swaps	—	—	—
	21,050	7	49
Fair value hedges			
Interest rate swaps	1,458	—	127
Cross currency swaps	1,194	—	28
	2,652	—	155
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	3,983	38	54
Cross currency swaps	460	50	2
Options	666	6	6
	5,109	94	62
Interest rate related contracts			
Swaps	20,506	130	357
Swaptions	176	2	2
Options	738	9	24
	21,420	141	383
Commodity related contracts	107	2	2
Total derivative contracts	**50,338**	**244**	**651**

Total derivative contracts as at 30 September 2012	Notional contract amount	Fair value of assets	Fair value of liabilities
		£m	
Derivatives designated as hedging instruments			
Cash flow hedges			
Interest rate swaps	8,970	186	2
Cross currency swaps	—	—	—
	8,970	186	2
Fair value hedges			
Interest rate swaps	1,458	11	145
Cross currency swaps	1,023	—	41
	2,481	11	186
Derivatives designated as held for trading			
Foreign exchange rate related contracts			
Spot, forward and futures contracts	3,785	43	48
Cross currency swaps	504	78	6
Options	542	6	6
	4,831	127	60
Interest rate related contracts			
Swaps	41,476	280	638
Swaptions	398	11	11
Options	1,350	20	54
	43,224	311	703
Commodity related contracts	75	2	2
Total derivative contracts	**59,581**	**637**	**953**

Certain derivative financial assets and liabilities have been booked in consolidated structured entities.

Derivative financial assets and liabilities include those designated as foreign currency hedges for CYBG Group securitisations and interest rate hedges for covered bond programmes. CYBG Group also macro hedges its interest rate exposure using cash flow hedges. The carrying value of the currency liabilities issued through securitisation entities fluctuates as a result of foreign exchange rate movements. There is a corresponding (and off-setting) movement in the value of the hedging derivatives.

Cash flow hedged derivatives include vanilla interest rate swaps within macro hedges and cross currency swaps within a structured entity. CYBG Group has the following commitments in the time bands noted:

	30 September			
	2015	2014	2013	2012
	£m			
Nominal values per time period				
0 to 6 months	4,310	14,305	2,370	2,810
6 to 12 months	1,448	1,133	925	995
1 to 2 years	8,318	6,165	14,930	2,145
2 to 5 years	3,330	8,003	2,825	3,020
Greater than 5 years	92	—	—	—
	17,498	**29,606**	**21,050**	**8,970**

CYBG Group has hedged the following forecast future cash flows, which vary primarily with interest or foreign exchange rates. These cash flows are expected to impact the income statement in the following periods, excluding any hedge adjustments that may be applied:

	Forecast receivable cash flows	Forecast payable cash flows	Forecast receivable cash flows	Forecast payable cash flows	Forecast receivable cash flows	Forecast payable cash flows	Forecast receivable cash flows	Forecast payable cash flows
	Sep 2015	Sep 2015	Sep 2014	Sep 2014	Sep 2013	Sep 2013	Sep 2012	Sep 2012
				£m				
Within 1 year	47	112	56	68	31	25	40	—
Between 1 and 2 years	38	235	71	95	59	19	21	—
Between 2 and 3 years	26	319	67	242	29	8	16	—
Between 3 and 4 years	21	57	15	23	22	12	10	—
Between 4 and 5 years	9	68	2	10	14	15	3	—
Greater than 5 years	—	96	—	—	—	—	—	—
	141	**887**	**211**	**438**	**155**	**79**	**90**	**—**

	Year ended 30 September			
	2015	2014	2013	2012
		£m		
Gain/(loss) arising from fair value hedges (note 7)				
Hedging instruments	109	14	21	(563)
Hedged item attributable to the hedged risk	(108)	(7)	(29)	551
	1	**7**	**(8)**	**(12)**
Gain/(loss) from cash flow hedges due to hedge ineffectiveness (note 7)	**1**	**2**	**(3)**	**1**

16. Loans and advances to customers

	30 September			
	2015	2014	2013	2012
		£m		
Overdrafts	1,563	1,767	2,024	2,346
Credit cards	376	364	396	436
Lease finance	426	417	482	694
Mortgages	20,504	18,444	16,148	15,369
Other term lending – business	4,025	4,272	4,427	5,151
Other term lending – retail	763	824	756	730
Other lending	30	33	32	51
Gross loans and advances to customers	27,687	26,121	24,265	24,777
Accrued interest receivable	75	79	65	72
Unearned income	(26)	(27)	(44)	(78)
Deferred and unamortised fee income	(24)	(27)	(37)	(58)
Impairment provisions on credit exposures (note 17)	(230)	(245)	(289)	(295)
	27,482	**25,901**	**23,960**	**24,418**
Not included in the above				
Assets classified as held for sale (note 26)	—	—	—	4,177
Impairment provisions on credit exposures in respect of assets held for sale (note 26)	—	—	—	(463)
		—	**—**	**3,714**

CYBG Group has transferred £5,923 million (30 September 2014: £4,763 million; 2013: £4,834 million; 2012: £4,364 million) of mortgages through securitisation arrangements that do not qualify for derecognition from the balance sheet (note 18). The mortgages do not qualify for derecognition because CYBG Group remains exposed to the risks and rewards of ownership on an ongoing basis. Prior to any relevant hedging arrangements CYBG Group continues to be exposed primarily to the credit risk, liquidity risk and interest rate risk of the mortgages. CYBG Group is also exposed to the residual rewards of the mortgages as a result of its ability to benefit from the future performance of the mortgages through the receipt of deferred consideration. The carrying amount of the associated liabilities before transactional costs is £3,413 million (30 September 2014: £2,780 million; 2013: £2,471 million; 2012: £2,553 million) (note 18).

Included within CYBG Group loans and advances to customers are £1,475 million (30 September 2014: £2,007 million; 2013: £2,751 million; 2012: £2,498 million) of mortgages assigned to a bankruptcy remote structured entity, Clydesdale Covered Bonds No. 2 LLP (note 18). These loans provide security for covered bonds issuances made by CYBG Group. These transactions do not qualify for derecognition from the balance sheet. At 30 September 2015 there were £721 million (30 September 2014: £1,063 million; 2013: £1,041 million; 2012: £1,084 million) of covered bonds in issue under the covered bond programmes (note 18).

CYBG Group also has a portfolio of fair valued business loans and advances (note 14). Combined with the above this is equivalent to total loans and advances of £28,579 million (30 September 2014: £27,484 million; 2013: £26,131 million; 2012: £27,238 million).

Lease finance

CYBG Group leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The costs of assets acquired by CYBG Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £2 million (30 September 2014: £2 million; 2013: £3 million; 2012: £4 million) and £297 million (30 September 2014: £269 million; 2013: £210 million; 2012: £314 million) respectively. The total receivables from finance leases and hire purchase contracts were £6 million (30 September 2014: £8 million; 2013: £12 million; 2012: £20 million) and £395 million (30 September 2014: £384 million; 2013: £437 million; 2012: £629 million) respectively.

	30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Finance lease and hire purchase receivables				
Gross investment in finance lease and hire purchase receivables				
Due within 1 year	183	196	216	301
Due within 1 to 5 years	241	216	247	365
Due after more than 5 years	2	5	19	28
	426	417	482	694
Unearned income	(25)	(25)	(33)	(45)
Net investment in finance lease and hire purchase receivables	**401**	**392**	**449**	**649**

There are specific provisions of £1 million (2014: £2 million; 2013: £3 million; 2012: £6 million) in relation to finance lease and hire purchase receivables with a collective provision of £1 million (2014: £nil; 2013: £nil; 2012: £1 million).

Maximum exposure to credit risk

The maximum exposure to credit risk in relation to loans and advances to customers is disclosed in note 39.

Distribution of loans and advances by credit quality

	Retail overdrafts	**Credit cards**	**Lease finance**	**Mortgages**	**Business lending[1]**	**Other retail lending**	**Total**
				£m			
As at 30 September 2015							
Gross loans and advances:							
Neither past due nor impaired	70	363	418	20,170	5,277	668	29,966
Past due but not impaired	9	13	6	268	172	15	483
Impaired	—	—	2	66	170	—	238
	79	**376**	**426**	**20,504**	**5,619**	**683**	**27,687**

(1) Business lending includes business overdrafts.

	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending(1)	Other retail lending	Total
				£m			
As at 30 September 2014							
Gross loans and advances:							
Neither past due nor impaired	84	349	405	18,045	5,577	713	25,173
Past due but not impaired	10	15	6	335	246	17	629
Impaired	—	—	6	64	249	—	319
	94	**364**	**417**	**18,444**	**6,072**	**730**	**26,121**

(1) Business lending includes business overdrafts.

	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending(1)	Other retail lending	Total
				£m			
As at 30 September 2013							
Gross loans and advances:							
Neither past due nor impaired	110	377	467	15,741	5,914	615	23,289
Past due but not impaired	12	19	6	331	291	19	615
Impaired	—	—	9	76	278	—	363
	122	**396**	**482**	**16,148**	**6,483**	**634**	**24,265**

(1) Business lending includes business overdrafts.

	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending(1)	Other retail lending	Total
				£m			
As at 30 September 2012							
Gross loans and advances:							
Neither past due nor impaired	132	415	661	14,939	6,790	529	23,466
Past due but not impaired	12	21	19	359	500	57	968
Impaired	—	—	14	71	258	—	343
	144	**436**	**694**	**15,369**	**7,548**	**586**	**24,777**

(1) Business lending includes business overdrafts.

Credit quality of loans and advances

CYBG Group has an internally adapted credit rating and approval system that uses data drawn from a number of sources to assess the potential risk in lending to CYBG Group's customers. This system assigns an indication of the probability of default for each customer and can be broadly mapped to external agencies rating scales. Impaired assets consist of business lending and secured personal lending where current circumstances indicate that losses of loan principal and/or interest may be incurred.

Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to CYBG Group's standard credit rating system. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with CYBG Group's ratings policy.

The table below presents an analysis of business lending (including lease finance) credit quality of loans and advances that are neither past due nor impaired.

	30 September			
	2015	2014	2013	2012
	£m			
Senior investment grade	1,174	1,225	1,386	1,377
Investment grade	1,615	1,721	1,511	1,961
Sub-investment grade	2,906	3,036	3,484	4,113
	5,695	**5,982**	**6,381**	**7,451**

For the business lending analysis, investment grades are determined by the eCRS as defined under CYBG Group's Credit Risk Management policy:

Description	eCRS	PD
Senior investment grade	1 to 5	0 < 0.11
Investment grade	6 to 11	0.11 < 0.55
Sub-investment grade	12 to 23	0.55 < 99.99

The LTV ratio of retail mortgage lending, coupled with the relationship of the debt to customers' income, is key to the credit quality of these loans. The table below sets out the indexed LTV analysis of CYBG Group's retail mortgages:

	30 September			
	2015	2014	2013	2012
	per cent.			
LTV ratio				
Less than 50 per cent.	34	27	24	21
50 per cent. to 75 per cent.	51	49	45	40
76 per cent. to 80 per cent.	5	6	8	9
81 per cent. to 85 per cent.	4	5	6	7
86 per cent. to 90 per cent.	2	4	5	6
91 per cent. to 95 per cent.	1	1	4	5
96 per cent. to 100 per cent.	—	1	2	4
Greater than 100 per cent.	—	1	2	4
Unknown	3	6	4	4
	100	**100**	**100**	**100**

Gross loans and advances past due but not impaired

Gross loans and advances that are past due but not impaired are classified as such for secured lending where the net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility. Unsecured retail lending and credit cards are written off when they reach 180 days past due and are not designated as impaired.

The distribution of gross loans and advances that are past due but not impaired is analysed below:

30 September 2015	Retail overdrafts	Credit Cards	Lease finance	Mortgages	Business Lending[(1)]	Other retail lending	Total
				£m			
1 to 29 days past due	8	6	6	77	110	5	212
30 to 59 days past due	—	2	—	57	17	3	79
60 to 89 days past due	—	2	—	36	9	2	49
Past due 90 days and over	1	3	—	98	36	5	143
	9	**13**	**6**	**268**	**172**	**15**	**483**

30 September 2014	Retail overdraft	Credit Cards	Lease finance	Mortgages	Business Lending[(1)]	Other retail lending	Total
				£m			
1 to 29 days past due	8	7	6	113	161	7	302
30 to 59 days past due	1	2	—	76	15	3	97
60 to 89 days past due	—	2	—	37	7	2	48
Past due 90 days and over	1	4	—	109	63	5	182
	10	**15**	**6**	**335**	**246**	**17**	**629**

30 September 2013	Retail overdrafts	Credit Cards	Lease finance	Mortgages	Business Lending[(1)]	Other retail lending	Total
				£m			
1 to 29 days past due	8	9	4	93	176	8	298
30 to 59 days past due	1	3	1	74	27	3	109
60 to 89 days past due	1	2	—	33	11	2	49
Past due 90 days and over	2	5	1	131	77	6	222
	12	**19**	**6**	**331**	**291**	**19**	**678**

30 September 2012	Retail overdrafts	Credit Cards	Lease finance	Mortgages	Business Lending[(1)]	Other retail lending	Total
				£m			
1 to 29 days past due	8	8	18	111	326	44	515
30 to 59 days past due	2	3	1	79	50	4	139
60 to 89 days past due	1	3	—	36	38	3	81
Past due 90 days and over	1	7	—	133	86	6	233
	12	**21**	**19**	**359**	**500**	**57**	**968**

(1) Business lending includes business overdrafts.

17. Impairment provisions on credit exposures

30 September 2015	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending[(1)]	Other retail lending	Total
				£m			
Opening balance	8	10	2	27	185	13	245
Charge for the year	(2)	5	1	18	44	12	78
Amounts written off	(4)	(10)	(1)	(6)	(63)	(16)	(100)
Recoveries of amounts written off in previous years	3	2	—	—	5	2	12
Other[(2)]	—	—	—	—	(5)	—	(5)
Closing balance	5	7	2	39	166	11	230
Specific	—	—	1	22	69	—	92
Collective	5	7	1	17	97	11	138
	5	7	2	39	166	11	230

30 September 2014	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending[1]	Other retail lending	Total
				£m			
Opening balance	10	12	3	31	218	15	289
Charge for the year	2	9	2	6	44	11	74
Amounts written off	(8)	(14)	(3)	(10)	(79)	(17)	(131)
Recoveries of amounts written off in previous years	4	3	—	—	5	4	16
Other[2]	—	—	—	—	(3)	—	(3)
Closing balance	8	10	2	27	185	13	245
Specific	—	—	2	16	92	—	110
Collective	8	10	—	11	93	13	135
	8	**10**	**2**	**27**	**185**	**13**	**245**

30 September 2013	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending[1]	Other retail lending	Total
				£m			
Opening balance	11	14	7	27	221	15	295
Charge for the year	4	12	3	14	99	12	144
Amounts written off	(9)	(18)	(7)	(10)	(115)	(16)	(175)
Recoveries of amounts written off in previous years	4	4	—	—	8	4	20
Transfer to assets held for sale	—	—	—	—	6	—	6
Other[2]	—	—	—	—	(1)	—	(1)
Closing balance	10	12	3	31	218	15	289
Specific	—	—	3	18	113	—	134
Collective	10	12	—	13	105	15	155
	10	**12**	**3**	**31**	**218**	**15**	**289**

30 September 2012	Retail overdrafts	Credit cards	Lease finance	Mortgages	Business lending[1]	Other retail lending	Total
				£m			
Opening balance	11	18	6	31	287	21	374
Charge for the year	7	13	7	10	691	9	737
Amounts written off	(10)	(22)	(6)	(14)	(303)	(22)	(377)
Recoveries of amounts written off in previous years	3	5	—	—	14	7	29
Transfer to assets held for sale (note 26)	—	—	—	—	(463)	—	(463)
Other[2]	—	—	—	—	(5)	—	(5)
Closing balance	11	14	7	27	221	15	295
Specific	—	—	6	14	106	—	126
Collective	11	14	1	13	115	15	169
	11	**14**	**7**	**27**	**221**	**15**	**295**

(1) Business lending includes business overdrafts.
(2) Other includes the unwind of net present value element of specific provisions and other minor movements.

	30 September			
	2015	2014	2013	2012
		£m		
Amounts included in				
Loans and advances to customers (note 16)	230	245	289	295
Non-accrual loans				
Loans and advances to customers	238	319	363	343
Specific provisions	(92)	(110)	(134)	(126)
	146	209	229	217

18. Securitisations and covered bonds

Securitisations

CYBG Group has securitised a proportion of its retail mortgage loan portfolio under CYBG Group's master trust securitisation programmes. The securitised mortgage loans have been assigned at principal value to bankruptcy remote structured entities. These structured entities have been funded through the issue of residential mortgage backed debt to third-party institutional debt investors. CYBG Group is entitled to any residual income from the vehicles after the debt obligations and senior expenses of the programmes have been met. The securitised debt holders have no recourse to CYBG Group other than the principal and interest (including fees) generated from the securitised mortgage portfolio. CYBG Group continues servicing these mortgage loans in return for an administration fee.

The loans do not qualify for derecognition because CYBG Group remains exposed to the majority of the risks and rewards of the mortgage portfolio, principally the credit risk associated with the underlying mortgage portfolio. The securitisation structured entities are consolidated and the securitised mortgage loans retained on CYBG Group's balance sheet. The securitised notes in issue are included within bonds and notes (note 30).

Covered bonds

A subset of CYBG Group's retail mortgage portfolio has been ring fenced and assigned to a bankruptcy remote limited liability partnership, associated with the covered bond programme, to provide a guarantee for the obligations payable on the covered bonds issued by CYBG Group. Similar to the securitisation programmes, CYBG Group is entitled to any residual income after all payment obligations due under the terms of the covered bonds and senior programmes expenses have been met.

The residential mortgages do not qualify for derecognition because CYBG Group retains all of the risks and rewards associated with these mortgage loans. The covered bond partnership is fully consolidated with the loans retained on CYBG Group balance sheet and the covered bonds issued are included within debt securities in issue. The covered bond holders have dual recourse; first to Clydesdale Bank on an unsecured basis and second to the guarantee secured against the covered pool mortgage assets. CYBG Group continues servicing these mortgage assets in return for an administration fee.

The balances of assets and liabilities in relation to securitisation notes and covered bonds in issue within CYBG Group balance sheet are as follows:

30 September 2015	Securitised notes	Covered bonds	Total
		£m	
At 1 October 2014	2,370	1,063	3,433
Issuance of debt	1,207	—	1,207
Repayments	(521)	(400)	(921)
Other movements	(25)	58	33
At 30 September 2015	**3,031**	**721**	**3,752**
Securitised assets	**5,923**	**1,475**	**7,398**

30 September 2014	Securitised notes	Covered bonds	Total
		£m	
At 1 October 2013	2,030	1,041	3,071
Issuance of debt	601	—	601
Repayments	(216)	—	(216)
Other movements	(45)	22	(23)
At 30 September 2014	**2,370**	**1,063**	**3,433**
Securitised assets	**4,763**	**2,007**	**6,770**

30 September 2013	Securitised notes	Covered bonds	Total
		£m	
At 1 October 2012	2,079	1,084	3,163
Issuance of debt	541	—	541
Repayments	(613)	—	(613)
Other movements	23	(43)	(20)
At 30 September 2013	**2,030**	**1,041**	**3,071**
Securitised assets	**4,834**	**2,751**	**7,585**

30 September 2012	Securitised notes	Covered bonds	Total
		£m	
At 1 October 2011	1,439	—	1,439
Issuance of debt	1,556	1,096	2,652
Repayments	(869)	—	(869)
Other movements	(47)	(12)	(59)
At 30 September 2012	**2,079**	**1,084**	**3,163**
Securitised assets	**4,364**	**2,498**	**6,862**

Further information on the liabilities relating to CYBG Group's securitisation and covered bond programmes can be found in note 30.

Other movements consist of exchange rate movements on currency denominated bonds and fair value hedge accounting adjustments.

In addition to the securitised notes and covered bonds disclosed above, there are £382 million (30 September 2014: £410 million; 2013: £442 million; 2012: £475 million) of Lannraig debt securities (including accrued interest) which are held by NAB and disclosed as a related party transaction (note 12). The assets which support the Lannraig debt are disclosed in the securitised assets line in the table above.

The following table sets out the carrying amount of financial assets that do not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the financial assets:

	30 September							
	2015		2014		2013		2012	
	Securitisation	*Covered bonds*	*Securitisation*	*Covered bonds*	*Securitisation*	*Covered bonds*	*Securitisation*	*Covered bonds*
				£m				
Carrying amount of transferred assets	**5,923**	**1,475**	**4,763**	**2,007**	**4,834**	**2,751**	**4,364**	**2,498**
Carrying amount of associated liabilities	**3,413**	**721**	**2,780**	**1,063**	**2,471**	**1,041**	**2,553**	**1,084**

For those liabilities that have recourse only to the transferred assets:

	30 September							
	2015		2014		2013		2012	
	Securitisation	*Covered bonds*	*Securitisation*	*Covered bonds*	*Securitisation*	*Covered bonds*	*Securitisation*	*Covered bonds*
	£m							
Fair value of transferred assets	5,923	—	4,763	—	4,834	—	4,364	—
Fair value of associated liabilities	3,413	—	2,780	—	2,471	—	2,553	—
	2,510		**1,983**	**—**	**2,363**	**—**	**1,811**	**—**

There were no transactions in the year where CYBG Group transferred financial assets that should have been derecognised in their entirety.

CYBG Group has contractual and non-contractual arrangements which may require it to provide financial support to the following types of consolidated structured entities:

Securitisation vehicles

CYBG Group provides credit support to the structured entities via reserve funds through subordinated loan arrangements. Exposures totalled £Nil at 30 September 2015 (30 September 2014: £17 million; 2013: £1 million; 2012: £Nil). CYBG Group has a beneficial interest in the securitised mortgage portfolio held by the structured entities as at the reporting date of £1,308 million (2014: £690 million; 2013: £1,067 million; 2012: £Nil).

CYBG Group has an obligation to repurchase mortgage exposures if certain representations and warranties are breached. CYBG Group has made no such repurchases in the current year (2014: None; 2013: None; 2012: None).

Looking forward through future reporting periods there are a number of date based calls and put options on the notes issued by the structured entities which could be actioned by them as issuer. These could require CYBG Group, as sponsor, to provide additional liquidity support.

Covered bonds

CYBG Group has a regulated covered bond programme. A limited liability partnership was established and a ring-fenced mortgage portfolio assigned to provide a guarantee under the terms of the covered bonds. At 30 September 2015 the nominal level of over-collateralisation was £855 million (30 September 2014: £1,249 million; 2013: £1,100 million; 2012: £1,100 million) of the outstanding covered bonds. From time to time the obligations of CYBG Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Clydesdale Bank has an obligation to repurchase mortgage exposures if certain representations and warranties are breached. Clydesdale Bank has made no such repurchases in the current year (2014: None; 2013: None; 2012: None).

19. **Property, plant and equipment**

	Freehold land and buildings	Long-term leasehold land and buildings	Building improvements	Fixtures and equipment	Total
			£m		
Cost or valuation					
At 1 October 2011	34	4	138	158	334
Additions	—	—	9	5	14
Disposals	(12)	—	(3)	(16)	(31)
On revaluation	(2)	(1)	—	—	(3)
At 1 October 2012	**20**	**3**	**144**	**147**	**314**
Additions	—	—	26	11	37
Disposals	(1)	—	(14)	(23)	(38)
At 30 September 2013	**19**	**3**	**156**	**135**	**313**
Additions	—	—	11	12	23
Disposals	(8)	—	(6)	(33)	(47)
At 30 September 2014	**11**	**3**	**161**	**114**	**289**
Additions	—	—	10	9	19
Disposals	(1)	—	(7)	(11)	(19)
Transfers	—	—	7	(7)	—
At 30 September 2015	**10**	**3**	**171**	**105**	**289**
Accumulated depreciation					
At 1 October 2011	1	—	69	99	169
Charge for the year (note 8)	—	—	11	12	23
Disposals	—	—	(2)	(16)	(18)
At 1 October 2012	**1**	**—**	**78**	**95**	**174**
Charge for the year (note 8)	—	—	13	11	24
Disposals	—	—	(8)	(10)	(18)
At 30 September 2013	**1**	**—**	**83**	**96**	**180**
Charge for the year (note 8)	—	—	13	11	24
Disposals	—	—	(4)	(32)	(36)
At 30 September 2014	**1**	**—**	**92**	**75**	**168**
Charge for the year (note 8)	—	—	14	12	26
Disposals	—	—	(4)	(10)	(14)
Transfers	—	—	3	(3)	—
At 30 September 2015	**1**	**—**	**105**	**74**	**180**
Net book value					
At 30 September 2015	**9**	**3**	**66**	**31**	**109**
At 30 September 2014	**10**	**3**	**69**	**39**	**121**
At 30 September 2013	**18**	**3**	**73**	**39**	**133**
At 30 September 2012	**19**	**3**	**66**	**52**	**140**

Valuations

CYBG Group's freehold and long-term leasehold land and buildings are carried at their fair value as determined by independent valuers and CYBG Group's own Directors' valuations. Fair values are determined in accordance with guidance published by the Royal Institution of Chartered Surveyors, including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings (Level 3 of the fair value hierarchy as defined in note 38). Valuations are performed annually in July.

There has been no change to the valuation technique during the year. There were no transfers between levels of the fair value hierarchy during the year.

A comparison of the carrying value under the revaluation basis and if the historical cost basis had been used is shown below:

	30 September			
	2015	2014	2013	2012
	£m			
Carrying value as included under the revaluation basis	**12**	**13**	**21**	**21**
Carrying value if the historical cost basis had been used	**10**	**11**	**19**	**20**

20. **Investment properties**

	30 September			
	2015	2014	2013	2012
	£m			
At 1 October	44	63	77	81
Additions	—	—	—	1
Disposals	(11)	(19)	(14)	(2)
Revaluation	(1)	—	—	(3)
At 30 September	**32**	**44**	**63**	**77**

Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers and the Company's own Directors' valuations.

Investment property is compared to property for which there is observable market data about its realisable value on disposal. Adjustments to this observable data are applied for specific characteristics of the property such as the nature, location or condition of the specific asset. Investment properties are classified in Level 3 of the fair value hierarchy as defined in note 38. There has been no change to the valuation technique during the year. There were no transfers between levels of the fair value hierarchy during the year.

During the year 99 per cent. (30 September 2014: 99 per cent.; 2013: 99 per cent.; 2012: 99 per cent.) of the investment properties generated total rental income of £2 million (30 September 2014: £2 million; 2013: £3 million; 2012: £3 million) and incurred operating and administrative expenses of £1 million (30 September 2014: £2 million; 2013: £2 million; 2012: £2 million). The operating and administrative expenses of the investment properties that did not generate rental income were £Nil (30 September 2014: £Nil; 2013: £Nil; 2012: £Nil).

21. **Property inventory**

	30 September			
	2015	2014	2013	2012
	£m			
At 1 October	2	6	9	27
Additions	—	—	—	1
Disposals	(2)	(4)	(3)	(14)
Write down of property inventory	—	—	—	(5)
At 30 September	**—**	**2**	**6**	**9**

All properties within property inventory are complete and available for sale. No properties are under construction (30 September 2014: £Nil; 2013: £Nil; 2012: £2 million).

22. **Investments in controlled entities and associates**

	30 September			
	2015	2014	2013	2012
	£m			
Investments in controlled entities and associates	**2**	**2**	**3**	**3**

Associates

Associates are undertakings over which the Company exerts significant influence but not control. Investments in associates are accounted for using the equity method. The attributable share of profit and reserves of the associated undertaking is based on the management accounts as at 30 September of the relevant year end. The associated undertaking is The Scottish Agricultural Securities Corporation PLC, its country of registration and operations being Scotland. The associated undertaking's principal activity is the provision of finance and CYBG Group's interest of 33.33 per cent. in the issued equity capital of £2 million is held by Clydesdale Bank. The associated undertaking has a 31 March year end.

The table below represents the subsidiaries of CYBG Group and the Company as at 30 September 2015:

Wholly owned subsidiary undertakings	Nature of business	Class of share held	Proportion held	Country of incorporation
Clydesdale Bank PLC	Banking	Ordinary	100%	Scotland
Yorkshire Bank PLC	Dormant	Ordinary	100%	England
CYB Services Limited	IT and Group services	Ordinary	100%	Scotland
Wave (No.4) Limited	In liquidation	Ordinary	100%	Scotland
National Australia Bank Pension Trustee (UK) Limited	Pension trustee	Ordinary	100%	Scotland
CYB Group SSP Trustee Limited	Pension trustee	Ordinary	100%	England
Wave (No.3) Limited	In liquidation	Ordinary	100%	England
CYB Intermediaries Holdings Limited	Insurance intermediary	Ordinary	100%	England
CYB Intermediaries Limited	Insurance intermediary	Ordinary	100%	England
YCBPS Property Nominee Company Limited	Property management	Ordinary	100%	England
Yorkshire Bank Home Loans Limited	Mortgage finance	Ordinary	100%	England
Clydesdale Bank Asset Finance Limited	Leasing	Ordinary	100%	Scotland
CGF No 9 Limited	Leasing	Ordinary	100%	Scotland
St Vincent (Equities) Limited	Investment company	Ordinary	100%	England
Shadwell Holdings (UK) Limited	Investment company	Ordinary	100%	England
Craig Yr Haul Management Company Limited	Property management	Ordinary	100%	England
CB Nominees Limited	Dormant	Ordinary	100%	Scotland
11 Tudor Hill Residential Management Company Limited	Dormant	Ordinary	100%	England
Fairway Views (Compton Avenue) Management Company Ltd	Dormant	Ordinary	100%	England
Linton Springs Residential Management Company Limited	Dormant	Ordinary	100%	England
St Johns Place Residential Management Company Limited	Dormant	Ordinary	100%	England
Yorkshire and Clydesdale Bank Foundation	Charitable foundation	Ordinary	100%	England
Gracechurch Commercial Investments Limited	In liquidation	Ordinary	50%	England
Plaza Ventures Limited	Property management	Ordinary	100%	Scotland
Yorkshire and Clydesdale Bank Pension Trustee Limited	Pension trustee	Ordinary	100%	Scotland

All subsidiaries have a 30 September year end with the exception of Craig Yr Haul Management Company Limited which is 31 January.

Structured entities

CYBG Group sponsors the formation of structured entities, primarily for the purpose of facilitation of asset securitisation and covered bond transactions to accomplish certain narrow and well defined objectives. Although the Company has no direct or indirect ownership interest in these entities, where it is exposed, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power over the entity, they are regarded as controlled entities as described in note 3 and are consolidated in CYBG Group's financial statements.

In the current and prior year all structured entities which CYBG Group sponsors, or in which CYBG Group holds an interest, are consolidated.

The following companies are consolidated structured entities:

Other controlled entities as at 30 September 2015	Nature of business	Country of incorporation
Clydesdale Covered Bonds No. 2 LLP	Acquisition of mortgage loans	England
Lanark Trustees Limited	Mortgages trustee	Jersey
Lanark Funding Limited	Funding company	England
Lanark Master Issuer PLC	Issuer of securitised notes	England
Lannraig Trustees Limited	Mortgages trustee	Jersey
Lannraig Funding Limited	Funding company	England
Lannraig Master Issuer PLC	Issuer of securitised notes	England

All of the above controlled entities have a 30 September financial year end.

Common control business combinations

As described in note 3, business combinations involving entities under common control, where all combining entities are ultimately controlled by the same entity before and after the business combination, are accounted for using the predecessor values method of accounting. This involves recognising assets and liabilities of the acquired business at book values. Any difference between the cost of acquisition and the aggregate book value of the assets and liabilities as of the date of the transfer of the acquired entity is recorded as an adjustment to equity. No additional goodwill is created by the business combination.

On 30 September 2015, CYBG Group acquired CYB Intermediaries Holdings Limited for a purchase price of £4 million from its ultimate parent. CYB Intermediaries Holdings Limited is an insurance intermediary business, operated through its subsidiary CYB Intermediaries Limited, and acts as an intermediary for a number of third-party providers of insurance and investment products. CYBG Group distributes these products through its retail mortgage and retail banking advisers to its customers.

As at 30 September 2015, CYB Intermediaries Holdings Limited had total tangible assets of £8 million and total tangible liabilities of £4 million. The purchase price paid to CYBG Group's ultimate parent of £4 million represented the full net book value of the Company's tangible net assets with no subsequent adjustment to equity required.

The main impacts of the transaction on CYBG Group balance sheet is the addition of £7 million of deferred consideration (note 13), with £1 million of other receivables along with £3 million of tax liabilities and £1 million of other payables. The effect on CYBG Group's results had the acquisition taken place on 1 October 2014 would have been an increase to the income statement before tax of £16 million.

Significant restrictions

As is typical for a group of CYBG Group's size, there are restrictions on the ability of certain subsidiary entities to make distributions of cash or other assets to the parent company. These are considered below:

Contractual requirements – asset encumbrance

CYBG Group uses its financial assets to raise finance in the form of securitisations and through the sale of securities subject to repurchase agreements. Once encumbered, the assets are not available for transfer around CYBG Group. The assets encumbered are disclosed in note 18.

23. Goodwill and other intangible assets

Goodwill

	30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Cost				
At 1 October	—	—	—	141
Impairment	—	—	—	(141)
At 30 September	**—**	**—**	**—**	**—**

Impairment testing of goodwill

Goodwill was subject to testing for impairment as described in note 3. A test for impairment took place in March 2012 and resulted in the entire goodwill figure of £141 million being impaired. In accordance with IAS 36, impairment losses recognised for goodwill cannot be reversed in subsequent years.

Accordingly a goodwill impairment loss of £141 million was recognised in income statement for the year ended 30 September 2012 within 'Operating expenses'.

Cash generating unit

Goodwill acquired through business combinations was allocated to one cash generating unit for the purpose of impairment testing. This cash generating unit reflected Clydesdale Bank.

Key assumptions used in impairment testing

The recoverable amount of the cash generating unit was derived from a value in use calculation using discounted cash flow techniques and a forecasted performance approved by the Board. Cash flows beyond the forecasted period were extrapolated using similar forecasted assumptions as in the forecast period. The following rates are used by the Company:

The calculation of the value in use was based on a Board approved three year forecast projection and was extrapolated forward with a terminal growth rate applied. The three year forecast projections encompassed a range of economic indications such as GDP growth, unemployment statistics as well as a range of other business assumptions specific to Clydesdale Bank such as asset volumes, product volumes and margins. The Board is satisfied that the assumptions used both within and beyond the forecasted period were appropriate and reasonable at 30 September 2012.

Discount rate

The discount rate applied reflected the market assessment of the risk specific to Clydesdale Bank. The discount rate was calculated by reference to a series of internal indicators combined with certain identifiable and available sector specific information. The impairment model used was based on post-tax cash flows and utilised a post-tax discount rate. A comparable pre-tax discount rate for the year ended 30 September 2012 was 12 per cent.

Projected terminal growth rate

The projected terminal growth rate was based on management's expectation of the long term average growth prospects for UK GDP after taking into account the broader historic UK economic outlook and trends.

Sensitivity to changes in assumptions

Changes such as a 1 per cent. increase in the post-tax discount rate or a 1 per cent. decrease in the projected terminal growth rate would have had no effect on the amount of impaired goodwill as the full amount of goodwill (£141 million) has already been impaired and cannot be reversed once it has been impaired.

Other intangible assets — Capitalised software costs

	30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Cost				
At 1 October	354	421	352	404
Additions	119	75	69	62
Disposals	(41)	(103)	—	—
Write-off	(5)	(39)	—	(114)
At 30 September	427	354	421	352
Accumulated amortisation				
At 1 October	141	206	154	180
Disposals	(41)	(103)	—	—
Charge for the year (note 8)	57	54	52	52
Write-off	(5)	(39)	—	(114)
Impairment (note 8)	10	23	—	36
At 30 September	162	141	206	154
Net book value at 30 September	**265**	**213**	**215**	**198**

Additions of £119 million (2014: £75 million; 2013: £69 million; 2012: £62 million) relate predominantly to CYBG Group's continuing investment in new systems to meet the requirements of the business. To the extent that the systems are in use within the business amortisation has been charged at the rates set out in note 3.

Management perform impairment testing of capitalised software assets in accordance with IFRS. The impairment charge follows a detailed review of the recoverable amount of the various assets. Where the benefits associated with the software are substantially reduced from what had originally been anticipated, the software is written down to its recoverable amount. An impairment charge of £10 million (note 8) has been recognised in the year to 30 September 2015 (30 September 2014: £23 million; 2013: £Nil; 2012: £36 million).

24. Deferred tax

Movement in net deferred tax asset

	30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Opening balance	339	266	266	101
Recognised in the income statement (note 9)	37	64	10	128
Recognised directly in equity	3	3	(10)	57
Transferred to assets held for sale	—	—	—	(20)
Other	—	6	—	—
At 30 September	**379**	**339**	**266**	**266**

CYBG Group recognises deferred tax attributable to the following items:

	30 September			
	2015	2014	2013	2012
	£m			
Deferred tax assets				
Defined benefit pension deficit	—	—	37	70
Impairment provision on credit exposures	3	8	9	14
Employee equity based compensation	1	1	1	4
Tax losses carried forward	273	223	103	92
Provisions	—	25	47	59
Accelerated capital allowances	108	87	66	56
Cash flow hedge reserve	4	4	—	—
Other	—	1	10	10
	389	**349**	**273**	**305**
Deferred tax liabilities				
Defined benefit pension asset	10	10	—	—
Net gain on revaluation of properties	—	—	1	1
Cash flow hedge reserve	—	—	6	37
Other	—	—	—	1
	10	10	7	39
Net deferred tax asset	**379**	**339**	**266**	**266**

In addition to the deferred tax assets recognised above, CYBG Group has an unrecognised deferred tax asset in respect of losses of £80 million gross (£16 million of tax). A deferred tax asset has not been recognised in respect of these losses as the Directors have has less certainty over their recoverability in the foreseeable future.

The statutory rate of UK corporation tax reduced to 20 per cent. on 1 April 2015. Under IAS 12 deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Accordingly, the deferred tax balances at 30 September 2015 have been reflected at the tax rates they are expected to be realised or settled.

The Finance (No. 2) Act introduced a banking surcharge, being an 8 per cent. charge on taxable profits above £25 million before the offset of brought forward losses or group relief. Additionally, the Finance (No. 2) Act reduced the mainstream UK rate of corporation tax from 20 per cent. to 19 per cent. from 1 April 2017 and to 18 per cent. from 1 April 2020. The Finance (No. 2) Act was not enacted until after the balance sheet date, and accordingly the impact is not reflected in the charges or balances above. It is estimated that the changes would result in an overall reduction in the value of the deferred tax asset of approximately £20 million.

From 1 April 2015 a maximum of 50 per cent. of taxable profits in an accounting period can be covered by tax losses brought forward from earlier periods. The utilisation of the deferred tax assets referred to above takes account of all substantively enacted legislation as at 30 September 2015, including the new loss utilisation rules.

25. Other assets

	30 September			
	2015	2014	2013	2012
	£m			
Prepayments and accrued income	35	31	42	33
Other[1]	142	218	362	242
	177	**249**	**404**	**275**

(1) Other includes items in the course of collection.

26. Assets held for sale

CYBG Group	30 September 2015	2014	2013	2012
		£m		
Assets held for sale				
Other financial assets at fair value (note 14)	—	—	—	1,475
Gross loans and advances to customers (note 16)	—	—	—	4,177
		—	—	5,652
Impairment provisions on credit exposures (note 17)	—	—	—	(463)
Derivative financial instruments (note 15)	—	—	—	(4)
Deferred tax	—	—	—	20
Accrued interest receivable	—	—	—	20
	—	—	—	**5,225**
Liabilities associated with assets held for sale				
Derivative financial instruments (note 15)	—	—	—	**142**

Assets held for sale principally comprised assets with balances before provisions of £5.7 billion. The assets held for sale were transferred to NAB on 5 October 2012 following the strategic review undertaken by CYBG Group.

As part of the transaction NAB assumed the credit risk on certain customer derivatives. Accordingly, the carrying value of derivatives in CYBG Group at 30 September 2012 increased by £4 million as there is a reduction in the level of credit valuation adjustment. This reduction in risk is part of the settlement of the net transaction.

The credit quality of the loans and advances held for sale was as follows:

	2012
	£m
Gross loans and advances:	
Neither past due nor impaired	3,095
Past due but not impaired	240
Impaired	842
	4,177
Impairment provisions on credit exposures (note 17)	(463)
Loans and advances held for sale (note 16)	**3,714**

The table below presents the analysis of business lending credit quality of loans and advances for assets held for sale that are neither past due nor impaired:

	2012
	£m
Senior investment grade	25
Investment grade	622
Sub-investment grade	2,448
	3,095

The distribution of loans and advances held for sale that are past due but not impaired are analysed below:

	2012
	£m
1 to 29 days past due	83
30 to 59 days past due	12
60 to 89 days past due	1
Past due over 90 days	144
	240

The value of undrawn formal standby facilities, credit lines and other commitments to lend at call in respect of assets held for sale is disclosed in note 35.

27. Due to other banks

	30 September			
	2015	2014	2013	2012
	£m			
Transaction balances with other banks	—	4	6	9
Securities sold under agreements to repurchase	—	644	—	78
Deposits from other banks	393	266	515	470
	393	**914**	**521**	**557**

28. Due to customers

	30 September			
	2015	2014	2013	2012
	£m			
Non interest-bearing demand deposits	1,986	1,849	1,687	1,637
Interest-bearing demand deposits	18,786	16,346	15,278	14,345
Term deposits	5,416	5,587	6,801	9,775
Other wholesale deposits	94	119	380	624
	26,282	23,901	24,146	26,381
Accrued interest payable	125	172	209	234
	26,407	**24,073**	**24,355**	**26,615**

Included within term deposits is £3 million (2014: £nil, 2013 £nil, 2012: £nil) relating to CYBG Group's associated entity (note 22).

29. Provisions

	30 September			
	2015	2014	2013	2012
	£m			
PPI redress provision				
Opening balance	515	152	108	102
Charge to the income statement (note 8)	390	420	130	120
Provision utilised	(131)	(57)	(86)	(114)
Closing balance	**774**	**515**	**152**	**108**
Customer redress and other provisions				
Opening balance	413	118	58	9
Charge to the income statement[(1)]	76	376	108	57
Provision utilised	(275)	(81)	(48)	(8)
Closing balance	**214**	**413**	**118**	**58**
Restructuring provision[(2)]				
Opening balance	24	45	126	—
Charge to the income statement	17	—	2	149
Provision utilised	(23)	(21)	(83)	(23)
Closing balance	**18**	**24**	**45**	**126**
Total provisions	**1,006**	**952**	**315**	**292**

(1) In the year ended 30 September 2014, 2013 and 2012, the income statement effect of IRHP/FRTBL related matters was Nil as it was offset by a receivable from NAB. The charge of £75 million taken in the year ended 30 September 2015 has not been offset.

(2) Restructuring provision includes surplus lease space provisions.

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reasonably estimated. The most significant provisions held are in relation to conduct risk related liabilities.

CYBG Group has provided its best estimate of conduct risk related liabilities which have arisen as a result of its historical products and past sales practices.

To arrive at best estimates, management have exercised significant judgement around the key assumptions that underpin the estimates and used estimation techniques to quantify them. Ongoing regulatory review and input, as well as rulings from the FOS over time, and CYBG Group's internal reviews and assessments of customer complaints will continue to impact upon the nature and extent of conduct related customer redress and associated costs for which CYBG Group may ultimately become liable in future periods. Accordingly the total cost associated with such conduct related matters remains inherently uncertain.

PPI redress

CYBG Group has reassessed the level of provision that is considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies and has concluded that additional provisions of £390 million should be recognised for the year ended 30 September 2015. This incorporates provision for a proactive customer contact and redress programme following the Past Business Review. It also reflects increased costs of administering the remediation programme and higher than expected customer initiated complaint volumes.

The total provision raised to date in respect of PPI is £1,196 million (2014: £806 million; 2013: £386 million; 2012: £256 million); with £774 million of this remaining as at 30 September 2015 (2014; £515 million; 2013: £152 million; 2012: £108 million). The remaining provision at 30 September 2015 comprised of £301 million for customer initiated complaints and proactive customer contact; £270 million for the remediation of complaints closed prior to August 2014; and £203 million for costs of administering the redress programme.

In common with the wider UK retail banking sector, CYBG Group continues to deal with complaints and redress issues arising out of historical sales of PPI. To 30 September 2015, CYBG Group has received 226,000 complaints and expects an estimated further 175,000 claims including 114,000 proactive customer mailings. On 14 April 2015, the FCA issued Clydesdale Bank with a fine of £21 million for failings in its PPI complaint handling processes between May 2011 and July 2013. The PPI redress provisions above relate solely to customer redress and processing costs. The fine is included in other operating and administration expenses (note 8).

CYBG Group implemented a comprehensive new PPI complaint handling process from August 2014 which involved making a number of significant changes to the PPI operations, which has resulted in an increase in operational and administrative costs, in addition to committing to undertake a full review of PPI complaints that were closed prior to August 2014 (approximately 180,000). CYBG Group plans to reopen these complaints and review the original decision reached in light of the new PPI complaint handling processes currently in operation. The provision at 30 September 2015 includes a redress provision of £270 million for this review.

In addition to the above activity, CYBG Group has also undertaken a Past Business Review of certain PPI sales to determine if there was actual or potential customer detriment in the sales process leading to a risk of mis-sale and the potential for proactive redress. CYBG Group has concluded that the provision increase should incorporate the estimated costs of contacting and redressing, where appropriate, customers who have faced actual detriment or may have experienced potential detriment but who have not actually raised a claim. Proactive customer mailings have not commenced and so key inputs to the calculation such as the level of customer response to mailings are not known but have been based on relevant historical experience and related industry data.

The increase in provisions takes into account all of the above factors as well as a higher than previously expected level of new customer initiated complaints with the overall provision based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement in the key areas identified. There remain risks and uncertainties in relation to these assumptions and consequently in relation to the ultimate costs of redress and related costs, including (i) the number of PPI claims (and the extent to which this is influenced by the activity of claims management companies), (ii) the number of those claims that ultimately will be upheld, (iii) the amount that will be paid in respect of those claims, (iv) any additional amounts that may need to be paid in respect to previously handled claims, (v) the response rates to the proactive customer contact, and (vi) the costs of administering the remediation programme.

As such, the factors discussed above mean there is a risk that existing provisions for PPI customer redress may not cover all potential costs. In light of this, the eventual costs of PPI redress and complaint handling may therefore differ materially from that estimated and further provision could be required. Accordingly, the final amount required to settle CYBG Group's potential PPI liabilities remains uncertain.

The table below sets out the key assumptions and the effect on the provision at 30 September 2015 of future, potential, changes in key assumptions:

Assumptions	**Change in assumption**	**Sensitivity**[(1)]
Number of expected future customer initiated complaints	+/-10%	£ 9m
Uphold rates:		
Future complaints	+/-1%	£ 4m
Pre-August 2014 complaints review	+/-1%	£ 8m
Customer contact response rate:		
Pre-August 2014 complaints review	-1%	£(3)m
Past Business Review response rate	+/-1%	£ 5m
Average redress costs[(2)]	+/-1%	£ 8m

(1) There are inter-dependencies between several of the key assumptions which add to the complexity of the judgements CYBG Group has to make. This means that no single factor is likely to move independently of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

(2) Sensitivity to a change in average customer redress across customer initiated complaints, pre-August 2014 complaints review and Past Business Review customer populations.

The number of complaints received is monitored against past experience and future expectations and CYBG Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop. This includes the FCA announcement on 2 October 2015 to consult on proposals to introduce a time limit for complaints and the impact of complaints arising from the *Plevin* judgement. Further commentary on the contingent nature of the PPI provision can be found in note 35.

Customer redress and other provisions

A provision for customer redress is held in those instances where CYBG Group expects to make payments to customers whether on an ex-gratia or compensatory basis. Provisions can arise as a result of legal or regulatory action and incorporate the costs of skilled persons, and where appropriate other elements of administration. The most significant of these relates to CYBG Group's IRHP/FRTBL.

In 2012, the FSA announced that it had reached agreement with a number of UK banks, including CYBG, in relation to a review and redress exercise on sales of certain IRHPs to small and medium sized businesses. CYBG Group implemented a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. On 31 March 2015 the FCA confirmed the closure of the formal industry wide redress program to new entrants.

CYBG Group also undertook a secondary review of all past FRTBL complaints not in scope of the formal review. Where the secondary complaint assessment identified a different outcome, the customer has been contacted and, if appropriate, redress offered. CYBG Group is also dealing with a number of new complaints from customers in relation to FRTBLs. Any new complaints from January 2014 have been assessed on a consistent basis.

CYBG Group has reassessed the level of provision considered necessary in light of the current and future expected claims for these matters and concluded that a further provision of £75 million (2014: £364 million; 2013: £36 million; 2012: £31 million) is appropriate with the charge included within CYBG Group's operating and administrative expenses for the year (note 8). This brings the total provisions raised in respect of IRHPs and FRTBLs to £506 million (2014: £431 million; 2013: £67 million; 2012: £31 million); with £192 million of this remaining as at 30 September 2015 (2014: £362 million; 2013: £49 million; 2012: £31 million).

The ultimate cost to CYBG Group of the IRHP and FRTBL matters is driven by a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs for IRHP and Voluntary Scope TBLs, and the complaints led review of certain FRTBLs. These factors could result in a total cost of the review and redress exercise and associated costs varying materially from CYBG Group's estimate. The final amount required to settle CYBG Group's potential liabilities in this matter is therefore materially uncertain and further provision could be required.

In 2012, 2013 and 2014, the income statement effect of these provisions is nil due to the recognition of an offsetting receivable from NAB. As noted above a £75 million charge to the income statement has been raised in the year ended 30 September 2015, with NAB contributing additional capital to offset the cost of this matter and PPI as part of the conduct mitigation package it publicly announced on 7 May 2015.

Other provisions include amounts provided in respect of legal proceedings, a number of individually less significant conduct related matters, and claims arising in the ordinary course of CYBG Group's business. The charge in respect of these other provisions in the year to 30 September 2015 was £1 million (2014: £12 million; 2013: £72 million; 2012: £26 million).

Restructuring provision

Following the announcement of the results of the UK banking strategic review on 30 April 2012, a restructuring provision of £149 million was raised. The provision covers redundancy payments, property vacation costs and associated enablement costs. Also included within the restructuring provision is an amount for committed rental expense on surplus lease space consistent with the expected years' exposure on individual leases where the property is unoccupied. The level of surplus lease space increased as a result of the UK banking strategic review as highlighted above and a number of property rationalisation activities undertaken since. This element of the provision will be utilised over the remaining life of the lease or until the leases area assigned. In the year to 30 September 2015, a further £17 million was charged to the income statement in relation to ongoing restructuring initiatives announced in the first half of the year and £23 million was utilised (2014: £21 million; 2013: £83 million; 2012: £23 million). In the year to 30 September 2015, the total provision decreased by £6 million to £18 million with a charge to the income statement (net of any writebacks) of £17 million.

30. Bonds and notes

	30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Residential mortgage backed securities	3,017	2,421	2,039	2,094
Covered bonds	697	1,097	1,096	1,096
	3,714	3,518	3,135	3,190
Fair value hedge adjustments	38	(85)	(64)	(27)
Total securitised notes and covered bonds	3,752	3,433	3,071	3,163
Accrued interest payable	14	20	14	24
	3,766	**3,453**	**3,085**	**3,187**

On 11 December 2014, €550 million and £275 million of RMBS were issued through Lanark 2014-2.

On 6 August 2015, £300 million and €280 million of RMBS were issued through Lanark 2015-1. In May 2015, the Lanark 2012-1 EUR issuance of €615 million was redeemed. In June 2015, the £400 million floating rate covered bond (2012-1) was redeemed. Both redemptions were in line with the scheduled programme terms.

Details of the terms and conditions of the notes issued by companies within CYBG Group to parties outside of the NAB Group as at 30 September 2015 were as follows:

Issue date	Currency	Carrying value	Coupon rate	Maturity/(Call) date
		£m		
Class A RMBS				
27 July 2012	USD	343	3M USD LIBOR + 1.40%	22 February 2016
27 July 2012	GBP	522	3M GBP LIBOR + 1.63%	22 November 2017
13 July 2013	USD	166	3M USD LIBOR + 0.50%	22 August 2016
13 July 2013	GBP	296	3M GBP LIBOR + 0.45%	22 August 2016
19 March 2014	EUR	206	3M EURIBOR + 0.40%	22 August 2017
19 March 2014	GBP	335	3M GBP LIBOR + 0.50%	22 November 2018
11 December 2014	EUR	384	3M EURIBOR + 0.40%	22 August 2018
11 December 2014	GBP	274	3M GBP LIBOR + 0.60%	22 February 2020
6 August 2015	GBP	299	3M GBP LIBOR + 0.50%	22 August 2018
6 August 2015	EUR	206	3M EURIBOR + 0.45%	21 May 2021
		3,031		
Covered Bonds				
31 May 2012	GBP	721	4.63%	8 June 2026
		3,752		

31. Retirement benefit obligations

CYBG Group operates both defined benefit and defined contribution arrangements. CYBG Group is the sponsoring employer in one funded DB Scheme, the Yorkshire and Clydesdale Bank Pension Scheme. The DB Scheme was established in 1951, and is currently governed by the Trust Deed and Rules dated 30 September 2009 following the merger of the Clydesdale Bank Pension Scheme and the Yorkshire Bank Pension Fund. The assets of the DB Scheme are held in a trustee administered fund, the trustee is responsible for the operation and governance of the DB Scheme, including making decisions regarding the DB Scheme's funding and investment strategy.

The DB Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Trust Deed and Rules, sets out the framework for funding defined benefit occupational pension plans in the UK.

CYBG Group also provides post-retirement health care under a defined benefit scheme for pensioners and their dependent relatives for which provision has been made. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members. A one percentage point change in the assumed rate of increase in healthcare costs would change the defined benefit post-retirement medical benefit pension obligation at 30 September 2015 by £0.3 million (2014: £0.3 million; 2013: £0.3 million; 2012: £0.4 million) and would have no material impact upon service costs and interest costs.

The following table provides a summary of the present value of the defined benefit obligation and fair value of plan assets for the DB Scheme:

	30 September			
	2015	2014	2013	2012
	£m			
Active members defined benefit obligation	(891)	(775)	(1,004)	(891)
Deferred members defined benefit obligation	(1,299)	(1,160)	(889)	(843)
Pensioner and dependent members defined benefit obligation	(1,323)	(1,285)	(1,022)	(1,052)
Total defined benefit obligation	(3,513)	(3,220)	(2,915)	(2,786)
Fair value of scheme assets	3,565	3,269	2,718	2,485
Net defined benefit pension asset/(obligation)	52	49	(197)	(301)
Post-retirement medical benefits obligations	(4)	(4)	(5)	(5)
Net retirement benefits obligation	**48**	**(45)**	**(202)**	**(306)**
Disclosed as:				
Defined benefit pension asset	**52**	**49**	**—**	**—**
Defined benefit pension obligation	**(4)**	**(4)**	**(202)**	**(306)**

IAS 19 allows the recognition of an asset, which reflects CYBG Group's ability to recover a surplus either through reduced contributions in the future or through refunds from the DB Scheme following the settlement of plan assets once all members have left the DB Scheme.

CYBG Group has implemented a number of reforms to the DB Scheme to manage the liability. It closed the DB Scheme to new members in 2004 and has determined benefits accruing after April 2006 on a career average revalued earnings basis ("**CARE**"). The principal pension available to new employees since the closure of the DB Scheme is a DC Scheme. The DC Scheme income statement charge for the year is shown in note 8.

CYBG Group implemented additional reforms to the DC Scheme which were effective from April 2012. These included changing the inflation index used to determine benefit increases from the Retail Price Index ("**RPI**") to the Consumer Price Index ("**CPI**") for future accruals and introducing member based contributions into the DC Scheme, increasing annually over a three year period. As an alternative to contributions, employees have the option of reducing their future annual rate of accrual from 1/60th of salary to 1/80th.

The last scheme funding valuation was at 30 September 2013 and estimated a deficit of £450 million. In the recovery plan dated 7 May 2014 CYBG Group agreed to make the following contributions to eliminate the deficit: £65 million on 1 October 2013; £150 million by 30 June 2014; £50 million on 1 October 2017; thereafter £50 million annually until 1 October 2021; and £55 million on 1 October 2022.

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Reconciliation of the net defined benefit pension asset/(liability)				
Opening net defined benefit pension scheme asset/(liability)	49	(197)	(301)	(179)
Service cost	(11)	(23)	(38)	(29)
Interest on net defined benefit asset/(liability)	3	(3)	(8)	—
Remeasurement effects recognised in SOCI	(36)	24	21	(328)
Employer contributions (note 12)	51	252	134	242
Administrative expenses	(4)	(4)	(5)	(7)
Closing fair value of net defined benefit pension scheme asset/ (liability)	**52**	**49**	**(197)**	**(301)**
Reconciliation of the defined benefit pension scheme assets				
Opening fair value of defined benefit pension scheme assets	3,269	2,718	2,485	2,076
Interest income on scheme assets at discount rate	133	129	110	119
Return on scheme assets greater than discount rate	206	254	80	129
Employer contributions (note 12)	51	252	134	242
Benefits paid	(84)	(77)	(83)	(74)
Transfer payments	(6)	(3)	(3)	—
Administrative costs paid	(4)	(4)	(5)	(7)
Closing fair value of defined benefit pension scheme assets	**3,565**	**3,269**	**2,718**	**2,485**
Reconciliation of the defined benefit pension scheme obligations				
Opening defined benefit pension scheme obligations	(3,220)	(2,915)	(2,786)	(2,256)
Current service cost	(27)	(21)	(25)	(27)
Past service cost	16	(2)	(13)	(2)
Interest expense on the defined benefit obligation	(130)	(132)	(118)	(119)
Actuarial gain – experience adjustments	40	31	4	(41)
Actuarial (loss) – demographic assumptions	—	(23)	—	(87)
Actuarial (loss) – financial assumptions	(282)	(238)	(63)	(328)
Benefits paid from scheme assets	84	77	83	74
Transfer payments	6	3	3	—
Closing defined benefit pension scheme obligations	**(3,513)**	**(3,220)**	**(2,915)**	**(2,786)**

The major categories of plan assets for the DB Scheme, stated at fair value, are as follows:

	30 September			
	2015	2014	2013	2012
	£m			
Quoted				
Equities	862	853	725	917
Government bonds	1,611	1,346	924	597
Global sovereign bonds	49	102	103	106
Corporate bonds	767	699	717	641
Other[(1)]	45	70	64	122
Cash	32	27	92	3
Secure income alternatives	67	62	—	—
Unquoted				
Property	132	110	93	99
Fair value of defined benefit pension scheme assets	**3,565**	**3,269**	**2,718**	**2,485**

(1) Includes amounts held in an Emerging Market Currency fund.

The DB Scheme is not invested in any of CYBG Group's own financial instruments. The property value above includes £16 million (2014: £16 million) in respect of CYBG Group's offices at Merrion Way, Leeds.

Through its defined benefit pension plan and post-employment medical plan, CYBG Group is exposed to a number of risks. The main risk to CYBG Group is that additional contributions are required if the DB Scheme's assets are not sufficient to pay for the benefits (which will be influenced mainly by inflation and the longevity of members). The level of equity returns will be a key factor in the overall investment return. The investment portfolio is also subject to a range of other risks typical of the assets held, in particular credit risk on bonds and exposure to the property market.

The trustee has implemented an investment structure (including physical assets and derivatives) that seeks to reduce the DB Scheme's exposure to inflation and interest rate risks. The current hedge ratio is 50 per cent. of liabilities when measured on a self-sufficiency basis. This strategy reflects the DB Scheme's liability profile and the trustee's and CYBG Group's attitude to risk. The trustee monitors the investment objectives and asset allocation policy on a regular basis.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Amounts recognised in the income statement				
Current service cost	27	21	25	27
Past service cost	(16)	2	13	2
Interest on net defined benefit (asset)/ liability	(3)	3	8	—
Defined benefit expense for the year	**8**	**26**	**46**	**29**
Administration costs incurred	4	4	5	7
(Credit)/cost recognised in the income statement	**12**	**30**	**51**	**36**

During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After the taking of independent financial advice the member can elect to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. Accounting for this change has resulted in a credit to the income statement of £18 million shown within past service costs.

For the years ending 30 September 2015, 2014 and 2013, the past service cost included pension enhancements, which were agreed as part of redundancy and early retirement entitlements and in all years these were fully offset in the income statement by a corresponding release from the restructuring provision.

	Year ended 30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Amounts recognised in the statement of comprehensive income				
Opening cumulative actuarial losses	(634)	(658)	(679)	(351)
Actuarial gain/(loss) due to liability experience adjustments	40	31	4	(41)
Actuarial loss due to liability assumption changes	(282)	(261)	(63)	(415)
Return on scheme assets greater than discount rate	206	254	80	129
Other	—	—	—	(1)
Cumulative actuarial losses recognised in the statement of comprehensive income	**(670)**	**(634)**	**(658)**	**(679)**
Actuarial assumptions			*% p.a.*	
Financial assumptions				
Discount rate	3.80	4.10	4.60	4.30
Inflation (RPI)	3.25	3.15	3.25	2.50
Inflation (CPI)	2.25	2.15	2.25	2.00
CARE revaluations:				
Pre 31 March 2012 benefits (RPI)	3.25	3.15	3.25	2.50
Post 31 March 2012 benefits (CPI capped at 5% per annum)	2.25	2.15	2.25	2.00
Pension increases (capped at 2.5% per annum)	2.10	2.10	2.25	2.25
Pension increases (capped at 5% per annum)	3.15	3.00	3.10	2.40
Rate of increase for pensions in deferment	2.25	2.15	2.25	2.00
Demographic assumptions			*Years*	
Post retirement mortality:				
Current pensioners at 60 – male	27.6	27.5	28.0	27.9
Current pensioners at 60 – female	29.5	29.4	28.5	28.5
Future pensioners at 60 – male	29.1	29.0	29.5	29.4
Future pensioners at 60 – female	**31.0**	**30.9**	**30.0**	**29.9**

The table below sets out the sensitivity of the defined benefit obligation and pension cost at 30 September 2015 and 30 September 2014 to realistic changes in the key actuarial assumptions:

30 September 2015	Impact on defined benefit obligation	Impact on pension cost
	£m	
Assumption change		
Discount rate		
+0.25%	(178)	(8)
-0.25%	192	10
Inflation		
+0.25%	162	8
-0.25%	(152)	(6)
Life expectancy		
+1 year	113	6
-1 year	(113)	(4)

30 September 2014	Impact on defined benefit obligation	Impact on pension cost
	£m	
Assumption change		
Discount rate		
+0.25%	(157)	(9)
-0.25%	169	9
Inflation		
+0.25%	142	7
-0.25%	(133)	(7)
Life expectancy		
+1 year	98	5
-1 year	(99)	(5)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

The discounted mean term of the defined benefit obligation at 30 September 2015 is 22 years. The expected contributions for the year ended 30 September 2016 are £32 million and expected benefit payments for the year ended 30 September 2016 are £90 million.

32. Other liabilities

	30 September			
	2015	2014	2013	2012
	£m			
Accruals and deferred income	136	78	80	83
Notes in circulation	1,791	1,831	1,709	1,567
Other	146	186	211	150
	2,073	**2,095**	**2,000**	**1,800**

33. Called up share capital

Allotted, called up and fully paid	2015	2014	2013	2012
	30 September			
		£m		
Ordinary shares of £0.10 each (previously £1 each)				
Opening ordinary share capital	1,882	1,582	1,582	1,082
Issued during the year	350	300	—	500
Nominal share value reduction	(2,009)	—	—	
Closing ordinary share capital	**223**	**1,882**	**1,582**	**1,582**
Preference shares of £1 each				
Opening preference share capital	—	100	100	100
Repurchased during the year	—	(100)	—	—
Closing preference share capital	**—**	**—**	**100**	**100**
Closing called up and fully paid share capital	**223**	**1,882**	**1,682**	**1,682**

Allotted, called up and fully paid	2015	2014	2013	2012
	Year ended 30 September			
	Number of shares	Number of shares	Number of shares	Number of shares
Ordinary shares of £0.10 each (previously £1 each)				
Opening ordinary share capital	1,882,012,500	1,582,012,500	1,582,000,000	1082,000,000
Issued during the year	350,000,012	300,000,000	—	500,000,000
Closing ordinary share capital	**2,232,012,512**	**1,882,012,500**	**1,582,000,000**	**1,582,000,000**
Preference shares of £1 each				
Opening preference share capital	—	100,000,000	100,000,000	100,000,000
Repurchased during the year	—	(100,000,000)	—	—
Closing preference share capital	**—**	**—**	**100,000,000**	**100,000,000**
Closing called up and fully paid share capital	**2,232,012,512**	**1,882,012,500**	**1,682,000,000**	**1,682,000,000**

On 27 March 2014, an additional 300,000,000 ordinary shares of £1 were issued. A further 350,000,000 ordinary shares of £1 were issued on 29 December 2014. All ordinary shares issued in the year were at par and fully paid up.

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Company. All shares in issue at 30 September 2015 rank equally with regard to the Company's residual assets.

On 28 May 2015, the Board approved the reduction of the nominal value of each ordinary share to £0.10 by cancelling and extinguishing £0.90 of liability on each issued ordinary share in the capital of the Company. The existing share capital was reduced from £2,232,012,500 divided into 2,232,012,500 ordinary shares of £1 each to £223,201,250 divided into 2,232,012,500 ordinary shares of £0.10. The nominal share value reduction has been transferred to retained earnings.

On 19 June 2015, one ordinary share was issued for a nominal value of £0.10 and a premium of £49,999,999.90.

There was one non-voting income share of £1 in issue at 30 September 2014, 2013 and 2012. On 8 July 2015 the non-voting income share of £1 was subdivided into 10 non-voting income shares of £0.10 and these were subsequently converted into ordinary shares.

On 24 September 2015, one ordinary share was issued for a nominal value of £0.10 and a premium of £619,999,999.90.

In accordance with the Articles of Association of the Company, with the non-objection of the PRA, obtained the consent of NAB to redeem 100,000,000 non-cumulative preference shares of £1 issued on 17 December 2008. The preference shares were repurchased on 20 December 2013.

The preference shares repurchased were classified as equity instruments. The preference shares entitled NAB to a discretionary fixed non-cumulative dividend of 12 per cent. per annum payable every six months on the capital paid up.

During the year to 30 September 2012, 500,000,000 ordinary shares of £1 each were issued at par.

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Company. All shares in issue at 30 September 2015 rank equally with regard to the Company's residual assets.

34. Total equity

	30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Share capital (note 33)	223	1,882	1,682	1,682
Share premium account	670	—	—	893
	893	1,882	1,682	2,575
Other equity instruments	450	300	—	—
Capital redemption reserve	—	100	—	—
Share option reserve	3	2	2	5
Asset revaluation reserve	2	2	2	1
Available for sale reserve	12	8	5	12
Cash flow hedge reserve	(13)	(16)	23	124
Total other reserves	4	96	32	142
Retained earnings	2,096	260	535	(298)
Total parent entity interest	**3,443**	**2,538**	**2,249**	**2,419**
Non-controlling interest	**—**	**—**	**200**	**200**
Total equity	**3,443**	**2,538**	**2,449**	**2,619**

Share premium account

On 19 June 2015, one ordinary share was issued by the Company to National Equities Limited for a nominal value of £0.10 and a premium of £49,999,999.90.

On 24 September 2015, one ordinary share was issued by the Company to National Equities Limited for a nominal value of £0.10 and a premium of £619,999,999.90.

Other equity instruments

Other equity instruments represent Additional Tier 1 notes. On 20 December 2013, perpetual capital notes (6m LIBOR + 763 bps) were issued with a principal amount of £300 million to NAB. These are perpetual securities with no fixed maturity or redemption date and are structured to qualify as Additional Tier 1 instruments under CRD IV. A further £150 million perpetual capital notes (6m LIBOR + 690 bps) were issued to NAB on 29 December 2014. Additional Tier 1 distributions of £18 million were paid in June 2015.

Share option reserve

CYBG Group's share option reserve represents the outstanding fair value amount in respect of share based payment expense recharged by its ultimate parent that has been charged through the income statement and adjusted for deferred tax.

Asset revaluation reserve

The asset revaluation reserve includes the gross revaluation increments and decrements arising from the revaluation of land and buildings.

Available for sale reserve

The available for sale reserve records the gains and losses arising from changes in the fair value of available for sale financial assets.

Cash flow hedge reserve

The cash flow hedge reserve records fair value revaluations of derivatives designated as cash flow hedging instruments to the extent that they are effective.

As at 30 September 2015 the cash flow hedge reserve comprises the crystallised net fair value losses arising from de-designated cash flow hedges (£2 million) and net deferred losses on derivatives in ongoing cash flow hedges (£15 million). The balance on the cash flow hedge reserve is net of tax.

£17 million (2014: £48 million; 2013: £51 million; 2012: £Nil) was recycled into the income statement in relation to the de designated hedge in the year. £1 million (2014: £2 million; 2013: £Nil; 2012: £Nil) was transferred to the income statement due to ineffectiveness arising from cash flow hedges (note 7).

Non-controlling interests

During the year ended 30 September 2014 CYBG Group redeemed at par a £200 million limited partnership interest in Rmond LP, a limited partnership controlled by CYBG Group, representing a capital contribution by National HK Investments Limited ("**NHKI**"), a Hong Kong incorporated holding company, indirectly owned by NAB. The redemption reduced equity interests attributable to a non-controlling party to nil at 30 September 2014. Rmond LP was dissolved on 20 December 2013.

At 30 September 2013, NHKI held 40 per cent. of the ownership interest in Rmond LP, but had no voting rights.

No distributions were paid to the non-controlling interests of Rmond LP in the current year (2014: £8 million; 2013: £Nil; 2012: £Nil). Before intercompany eliminations Rmond LP recorded revenue, profit and total comprehensive income for the year of £Nil (2014: £5 million; 2013: £26 million; 2012: £28 million); net cash flows for the year of £Nil (2014: £Nil; 2013: £Nil; 2012: £Nil); total assets at 30 September 2015 of £Nil (2014: £Nil; 2013: £507 million; 2012: £508 million); and Members' interests at 30 September 2015 of £Nil (2014: £Nil; 2013: £507 million; 2012: £508 million).

35. Contingent liabilities and commitments

The table below sets out the contractual amounts of contingent liabilities and commitments which are not recorded on the balance sheet. Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	30 September			
	2015	**2014**	**2013**	**2012**
	£m			
Contingent Liabilities				
Guarantees and assets pledged as collateral security:				
At call	—	—	1	1
Due in less than 3 months	25	32	34	57
Due between 3 months and 1 year	13	25	63	44
Due between 1 year and 3 years	9	9	12	70
Due between 3 years and 5 years	2	3	4	4
Due after 5 years	52	61	90	102
No specified maturity	8	6	9	8
	109	**136**	**213**	**286**
Other credit commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**7,801**	**8,422**	**8,696**	**9,290**
Not included in the above:				
Undrawn formal standby facilities, credit lines and other commitments to lend at call in respect of assets held for sale (note 26)	**—**	**—**	**—**	**140**

Capital commitments

CYBG Group had future capital expenditure which had been contracted for but not provided for in the financial statements at 30 September 2015 of £1.9 million (2014: £3.6 million; 2013: £4.5 million; 2012: £5.7 million).

Operating lease commitments

	30 September			
	2015	**2014**	**2013**	**2012**
Leases as lessor				
Future minimum lease payments under non-cancellable operating leases are:				
within 1 year	2	2	2	2
between 1 year and 5 years	6	6	3	5
over 5 years	2	2	2	6
	10	**10**	**7**	**13**
Leases as lessee				
Future minimum lease payments under non-cancellable operating leases are:				
within 1 year	31	30	31	35
between 1 year and 5 years	95	94	91	112
over 5 years	122	121	115	224
	248	**245**	**237**	**371**

Other contingent liabilities

Financial Services Compensation Scheme

The FSCS provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits. During 2015, the FSCS levy was also invoiced to institutions for the third of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings, which remains after the three annual levies have been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2016 and an accrual of £9 million (2014: £7 million; 2013: £7 million; 2012: £8 million) is held for CYBG Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

Conduct risk related matters

There continues to be a great deal of uncertainty and significant judgement is required in determining the quantum of conduct risk related liabilities with note 29 to the Historical Financial Information reflecting CYBG Group's current position in relation to redress provisions for PPI and IRHP/FRTBLs.

As at 30 September 2015, a provision of £774 million is held with respect to complaints and redress issues arising out of historical sales of PPI. This provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs, including: (i) the number of PPI claims (including the extent to which this is influenced by the activity of claims management companies); (ii) the number of those claims that ultimately will be upheld; (iii) the amount that will be paid in respect of those claims; (iv) the impact of the Supreme Court decision in *Plevin v Paragon Personal Finance Ltd (Plevin)* referenced below (including the impact of any new FCA rules or guidance issued further to that decision); (v) any additional amounts that may need to be paid in respect of previously handled claims; (vi) the costs of administering the remediation programme; and (vii) the response rates to proactive customer contact. The requirement for further proactive customer contact has been determined by CYBG Group undertaking a past business review and is included in the charge of £390 million which also incorporates changes in complaint levels, changes in the cost of redress and uphold rates, and increased costs of administering the programme. Further detail is provided in note 29.

The November 2014 Supreme Court Case of *Plevin* held that, judged on its own facts, non-disclosure of the amount of commission payable in that case in connection with the sale of single premium PPI to a customer, created an unfair relationship under s140A of the Consumer Credit Act 1974.

On 2 October 2015, the FCA announced its intention to issue a consultation, before the end of the calendar year, in relation to the introduction of a deadline by which consumers would need to make their PPI complaints and also in relation to how firms should handle PPI complaints fairly in the light of the *Plevin* case. On 26 November 2015 the consultation was published ("*CP15/39: Rules and guidance on payment protection complaints*"). The consultation is open until 26 February 2016 thereafter the FCA will consider the responses received before making final rules. The principal elements of the consultations include a deadline for PPI complaints falling two years from the date the proposed rule comes into force (not anticipated to be before spring 2016) and a proposal that a failure to disclose a commission of 50 per cent. or more gave rise to an unfair relationship under s.140A in respect of sums payable under the underlying credit agreement on sales on or after 6 April 2008. The proposed PPI complaint deadline would also apply to the handling of these complaints. Noting that the consultation documents have not been published and that the final rules and guidance may therefore change from that proposed, it is too early to estimate the impact of these matters which may impact the level of walk in complaints CYBG Group experiences as well as the activity of claims management companies amongst other factors. Accordingly, no adjustment to the PPI provision has been recorded in relation to these matters.

Therefore, the final amount required to settle CYBG Group's potential liabilities for these matters is materially uncertain. CYBG Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

CYBG Group's provision for IRHP/FRTBLs at 30 September 2015 is £192 million. In common with PPI, the IRHP/FRTBL provision and ultimate final amount required to settle CYBG Group's potential IRHP/FRTBL liability is uncertain and is driven by a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs. These factors could result in the total cost of the review and redress exercise and associated costs varying materially from CYBG Group's estimate. The final amount required to settle CYBG Group's potential IRHP/FRTBL liability in this matter is therefore uncertain and further provision could be required.

As part of the Demerger and the Global Offer announced on 7 May 2015, NAB confirmed its intention to provide support to CYBG Group against potential losses related to legacy conduct costs, including those relating to PPI and IRHPs/FRTBLs. Further detail can be found in note 41.

In addition to PPI and IRHP/FRTBL, UK retail banks have been recently experiencing an increase in the number of complaints in relation to the sale of packaged bank accounts. Whilst the activity in this area is not material at present, CYBG Group continues to monitor complaint volumes (initiated from both customers and claims management companies) and the final customer outcomes of these complaints and will review its position going forward as matters develop.

Legal claims

CYBG Group is named in and is defending a number of legal claims arising in the ordinary course of business. No material adverse impact on the financial position of CYBG Group is expected to arise from the ultimate resolution of these legal actions.

36. Notes to the statements of cash flows

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Non-cash or non-operating items included in profit/(loss) before tax				
Interest receivable	(1,110)	(1,135)	(1,209)	(1,461)
Interest payable	323	363	452	592
Depreciation and amortisation (note 8)	83	78	76	75
Net gain on capital and debt restructure (note 7)	(61)	—	—	—
Loss on revaluation of land and buildings	—	—	—	10
Transfer from available for sale reserve	—	—	—	(4)
Loss/(profit) on sale of tangible fixed assets [1]	1	(7)	(1)	(10)
Transfer from cash flow hedge reserve	(1)	(2)	3	(1)
Loss on sale of AFS investments	—	—	—	3
Derivative financial instruments fair value movements	(2)	(9)	11	(9)
Impairment losses on credit exposures (note 17)	78	74	144	737
Impairment losses on goodwill (note 8)	—	—	—	141
Impairment losses on software (note 8)	10	23	—	36
Movement in share option reserve	—	—	(3)	(9)
	(679)	**(615)**	**(527)**	**100**
Changes in operating assets				
Net (increase)/decrease in:				
Balances with supervisory central banks	(2)	1	(12)	(2)
Due from other banks	(113)	171	(170)	(2)
Derivative financial instruments	1	(26)	247	429
Financial assets at fair value through profit or loss	478	585	636	2,055
Loans and advances to customers	(1,663)	(2,001)	307	3,155
Due from customers on acceptances	1	(1)	3	—
Defined benefit pension assets	(39)	—	—	—
Other assets	(157)	94	(114)	47
Assets held for sale	—	—	5,225	(5,225)
	(1,494)	**(1,177)**	**6,122**	**457**
Changes in operating liabilities				
Net increase/(decrease) in:				
Due to other banks	(567)	395	(55)	(783)
Derivative financial instruments	(39)	(135)	(289)	21
Financial liabilities at fair value through profit or loss	(23)	(31)	(27)	(8)
Due to customers	2,380	(245)	(2,235)	(1,789)
Liabilities on acceptances	(1)	1	(3)	—
Provisions (note 29)	54	637	23	181
Defined benefit pension obligations	—	(223)	(83)	(207)
Other liabilities	179	163	177	274
Liabilities associated with assets held for sale	—	—	(142)	142
	1,983	**562**	**(2,634)**	**(2,169)**

(1) Tangible fixed assets include land and buildings, property, plant and equipment, investment properties and property inventory.

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	Year ended 30 September			
	2015	2014	2013	2012
	£m			
Cash and balances with central banks (note 11)	6,387	5,944	6,677	7,896
Other assets	86	143	178	153
Due to other banks	(72)	(26)	(28)	(9)
Due to related entities	(33)	(108)	(182)	(13)
Other liabilities	(31)	(58)	(95)	(74)
	6,337	**5,895**	**6,550**	**7,953**

37. **Equity based compensation**

Share incentive plans, share offers, performance options and Performance Rights are used to provide short-term and long-term incentives to employees. These incentives are an integral part of CYBG Group's remuneration strategy in rewarding employees' current and future contribution to CYBG Group's performance. All UK awards are made in accordance with the principles set out within the PRA Remuneration Code.

The plans described below involve the provision of NAB Shares and Performance Rights to employees, senior management and Directors of CYBG Group.

Short Term Incentive Plan

The Short Term Incentive Plan has an element of deferral to provide an appropriate level of reward aligned with sound risk management principles. Short Term Incentive Plan Deferral encourages longer-term sustainable decision making and assurance of individual and business performance. Deferral applies to all levels of performance across the organisation. Deferral is in the form of NAB shares, rights or cash. The deferred amount is subject to forfeiture conditions including forfeiture as a result of resignation, termination by NAB or failure to meet compliance requirements. A reduction or forfeiture of deferred amounts can also be determined by the principal board, at its absolute discretion. Such a determination may be made in relation to the NAB Group, a business unit, executive committee, role or individual.

Recognition and retention shares

Retention and recognition awards are provided in the form of NAB Shares, rather than in cash. Such awards are made on a very limited basis with NAB Group principal board Remuneration Committee approval, to individuals in significant key roles where retention is critical over a medium-term timeframe (two to three years). Awards under the programme may also be provided to individuals accepting significant project leadership or additional responsibilities for a limited period of time with no related increase in their fixed remuneration. The provision of NAB Shares under this plan is desired over the use of cash payments, as it provides a stronger retention and shareholder value link to the reward. The Shares are subject to forfeiture conditions including forfeiture as a result of resignation, or retirement or failure to meet compliance requirements. The minimum restriction period is until the final key date or milestone has been achieved.

Commencement shares

These awards enable 'buyout' of evidenced equity from previous employment for significant new hires. NAB Shares are provided under this programme or commencement performance options and Performance Rights if more appropriate. NAB Shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by NAB or failure to meet compliance requirements.

NAB Share Incentive Plan

The NAB Share Incentive Plan is a tax-advantaged share plan that is registered with HMRC. Employees are entitled to purchase up to £1,800 worth of NAB Shares each year through the partnership share plan. Participants contribute each month and the trustee uses the contributions to purchase NAB Shares on the market which are then held in trust for the participants. Participants are entitled to receive dividends and exercise voting rights in respect of these NAB Shares and there is no risk of forfeiture. In addition, up to £3,000 of free shares may be awarded by the employer to employees per annum.

General employee shares

NAB free shares are not expected to be granted to employees of CYBG Group for the year ended 30 September 2015. Alternative awards in relation to the year are being finalised as part of the planned Demerger and the Global Offer.

NAB Long-term Incentives (“NAB LTI”)

NAB LTI taking the form of awards of NAB Shares, performance options or Performance Rights, help to drive management decisions focused on the long-term prosperity of the NAB Group through the use of challenging performance hurdles. The executive NAB LTI programme is awarded to senior executives across CYBG Group. A NAB LTI target is set with reference to external and internal relativities for each executive who must also meet minimum performance and compliance thresholds. Performance hurdles (both internal and external) are measured at the end of a four to five year restriction period and during the restriction period an executive’s performance rights or performance options will lapse (or their shares will be forfeited) for cessation of employment (if the Board so determines) or, if compliance requirements or performance hurdles are not met.

For historical awards a variety of performance measures are used for different grants of long-term incentives including total shareholder return compared against peer companies, and regional or NAB Group return on equity and cash earnings. The measures used depend on the level and impact of the participant’s role, the business or region in which they work and the relevant program.

Vesting of a NAB LTI award generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the NAB Board Remuneration Committee). The performance options and Performance Rights generally have an expiry date between three and six years from the effective date, if they remain unexercised.

Each performance option or Performance Right is exchanged for one fully paid NAB Share upon exercise, subject to standard adjustments for capital actions. The exercise price for performance options is generally the market price for NAB Shares as at the date the performance option was granted or such other relevant date determined by the NAB Board Remuneration Committee. No exercise price is payable by the holder on exercise of Performance Rights.

NAB LTI awards are not expected to be granted to Directors of CYBG Group for the year ended 30 September 2015. Alternative long-term incentive awards in relation to the year are being finalised as part of the Demerger and the Global Offer.

The movement in performance options and Performance Rights granted and exercised during the year was as follows:

Performance Options	**September 2015**		**September 2014**		**September 2013**		**September 2012**	
		Weighted average exercise price		**Weighted average exercise price**		**Weighted average exercise price**		**Weighted average exercise price**
	Number	*AUD*	*Number*	*AUD*	*Number*	*AUD*	*Number*	*AUD*
Outstanding at 1 October	—	—	85,715	19.89	278,946	26.12	3,432,798	36.65
Granted during the year	—	—	—	—	—	—		
Forfeited and lapsed during the year . .	—	—	(4,947)	19.89	(55,527)	30.65	(3,095,354)	37.92
Exercised during the year	—	—	(80,768)	19.89	(41,177)	19.89	(58,498)	19.89
Expired during the year	—	—	—	—	(96,527)			
Outstanding at end of year	**—**	**—**	**—**	**—**	**85,715**	**19.89**	**278,946**	**26.12**
Exercisable at end of year	**—**		**—**		**—**		**65,343**	

No performance options were exercised during the year ended 30 September 2015 (2014: 80,768; 2013: 41,177; 2012: 58,498). There are no performance options outstanding at 30 September 2015 or 30 September 2014, the weighted average remaining contractual life of those outstanding at 30 September 2013 was 0.79 years (2012: 1.3 years). The exercise price for performance options outstanding at 30 September 2013 was AUD19.89 (2012: range from AUD19.89 to AUD31.70).

	30 September			
	2015	**2014**	**2013**	**2012**
	Number			
Performance Rights				
Outstanding at beginning of year	259,093	186,119	145,729	745,984
Granted during the year	136,812	197,835	61,258	145,729
Forfeited and lapsed during the year	(103,965)	(124,861)	(20,868)	(717,699)
Exercised during the year	(10,874)	—	—	(28,285)
Outstanding at end of year	**281,066**	**259,093**	**186,119**	**145,729**
Exercisable at end of year	**18,480**	**—**	**—**	**—**

103,965 unvested performance options were forfeited during the year ended 30 September 2015 (2014: 124,861; 2013: 20,868; 2012: 717,699). 10,874 performance rights were exercised during the year (2014: Nil; 2013: Nil; 2012: 28,285). For performance rights outstanding at 30 September 2015, the weighted average remaining contractual life is 3.38 years (2014: 4.04 years; 2013: 2.87 years; 2012: 3.21 years). No exercise price is payable by the holder on exercise of performance rights.

Fair value of share options and performance rights

No performance options were granted during the year ended 30 September 2015 and 30 September 2014 (2013: Nil; 2012: Nil). 136,812 performance rights were granted during the year ended 30 September 2015 (year ended 30 September 2014: 197,835; 2013: 61,258; 2012: 145,729). Included within personnel expenses (note 8) is a fair value of goods or services to the value of £1.2 million, which was measured indirectly by reference to the fair value of the performance rights granted during the year (year ended 30 September 2014: £2.1 million; 2013: £0.8 million; 2012: £1.4 million).

38. Fair value of financial instruments

(a) *Fair value of financial instruments recognised on the balance sheet at amortised cost*

The tables below show a comparison of the carrying amounts, as reported on the balance sheet, and fair values of those financial assets and liabilities measured at the amortised cost where the carrying value amounts of the financial assets and financial liabilities recorded at amortised cost in the balance sheet are not approximately equal to their fair value.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements – quoted prices (unadjusted) in active markets for an identical financial asset or liability.
- Level 2 fair value measurements – inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements – inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involve judgement. The methodologies and assumptions used in the fair value estimates are described in the footnotes to the tables.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of CYBG Group's financial instruments can be exchanged in an active trading market. CYBG Group obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, CYBG Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. The difference between carrying value and fair value is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances.

	30 September 2015				
			Fair Value measurement using:		
	Carrying value	Fair value	Quoted market prices	Valuation techniques (observable inputs)	Valuation techniques (significant non-observable inputs)
			(Level 1) *£m*	*(Level 2)*	*(Level 3)*
Financial assets					
Loans and advances to customers	27,482	27,537	—	1,111	26,426
Financial liabilities					
Due to customers	26,407	26,423	—	26,423	—
Due to related entities	998	1,017	—	1,017	—
Bonds and notes	3,766	3,869	—	3,869	—

	30 September 2014				
			Fair Value measurement using:		
	Carrying value	Fair value	Quoted market prices	Valuation techniques (observable inputs)	Valuation techniques (significant non-observable inputs)
			(Level 1) *£m*	*(Level 2)*	*(Level 3)*
Financial assets					
Loans and advances to customers	25,901	25,734	—	1,293	24,441
Financial liabilities					
Due to customers	24,073	24,083	—	24,083	—
Due to related entities	2,677	2,633	—	2,633	—
Bonds and notes	3,453	3,534	—	3,534	—

	30 September 2013	
	Carrying value	Fair value
	£m	
Financial assets		
Loans and advances to customers	23,960	24,004
Financial liabilities		
Due to customers	24,355	24,402
Due to related entities	3,036	3,036
Bonds and notes	3,085	3,088

	30 September 2012	
	Carrying value	Fair value
	£m	
Financial assets		
Loans and advances to customers	24,418	24,473
Financial liabilities		
Due to customers	26,615	26,694
Due to related entities	7,716	7,716
Bonds and notes	3,187	3,187

CYBG Group's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) Cash and balances with central banks, due to and from other banks, due from customers on acceptances, liabilities on acceptances, other assets and other liabilities – Carrying values approximate to fair values as they are short term in nature and / or receivable or payable on demand.

(b) *Amounts due from related entities* – amounts due from related entities are repayable on demand or within months. As a result, the carrying value approximates to the fair value.

(c) *Loans and advances to customers* – The fair value of loans and advances is determined by firstly segregating them into portfolios of similar characteristics. Contractual cash flows are then adjusted for expected credit losses and expectations of customer behaviour based on observed historical data. The cash flows are then discounted using current market rates for instruments of similar terms and maturity to arrive at an estimate of their fair value. Certain variable rate loan portfolios are discounted using market rates on similar loans offered by CYBG Group at the valuation date.

(d) *Amounts due to related entities* – The fair value of subordinated loans; and notes issued to related entities is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity. All other amounts due to related entities are repayable under varying maturities but are materially repriced every 3 to 6 months relative to market rates.

(e) *Due to customers* – The fair value of deposits is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(f) *Bonds and notes* – The fair value is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(b) ***Fair value of financial instruments recognised on the balance sheet at fair value***

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using the fair value hierarchy described in note 38(a) above.

	Fair value measurement as at 30 September 2015			
	Quoted market prices	**Valuation techniques (observable inputs)**	**Valuation techniques (significant non-observable inputs)**	
	(Level 1)	*(Level 2)*	*(Level 3)*	*Total*
		£m		
Financial assets				
Derivative financial assets	—	285	—	285
Investments – available for sale – listed	1,447	—	—	1,447
Investments – available for sale – unlisted	—	—	8	8
Investments – available for sale – other	—	—	7	7
Other financial assets at fair value	—	—	1,097	1,097
Total financial assets measured at fair value	**1,447**	**285**	**1,112**	**2,844**
Financial liabilities				
Derivative financial liabilities	—	534	—	534
Other financial liabilities at fair value	—	—	67	67
Total financial liabilities measured at fair value	**—**	**534**	**67**	**601**

	Fair value measurement as at 30 September 2014			
	Quoted market prices	Valuation techniques (observable inputs)	Valuation techniques (significant non-observable inputs)	
	(Level 1)	*(Level 2)*	*(Level 3)*	*Total*
		£m		
Financial assets				
Derivative financial assets	—	220	—	220
Investments – available for sale – listed	1,161	—	—	1,161
Investments – available for sale – unlisted	—	—	7	7
Other financial assets at fair value	—	—	1,583	1,583
Total financial assets measured at fair value	**1,161**	**220**	**1,590**	**2,971**
Financial liabilities				
Derivative financial liabilities	—	548	—	548
Other financial liabilities at fair value	—	—	91	91
Total financial liabilities measured at fair value	**—**	**548**	**91**	**639**

	Fair value measurement as at 30 September 2013			
	Quoted market prices	Valuation techniques (observable inputs)	Valuation techniques (significant non-observable inputs)	
	(Level 1)	*(Level 2)*	*(Level 3)*	*Total*
		£m		
Financial assets				
Derivative financial assets	—	244	—	244
Investments – available for sale – listed	968	—	—	968
Investments – available for sale – unlisted	—	—	7	7
Other financial assets at fair value	—	—	2,171	2,171
Total financial assets measured at fair value	**968**	**244**	**2,178**	**3,390**
Financial liabilities				
Derivative financial liabilities	—	651	—	651
Other financial liabilities at fair value	—	—	123	123
Total financial liabilities measured at fair value	**—**	**651**	**123**	**774**

	Fair value measurement as at 30 September 2012			
	Quoted market prices	Valuation techniques (observable inputs)	Valuation techniques (significant non-observable inputs)	
	(Level 1)	*(Level 2)*	*(Level 3)*	*Total*
		£m		
Financial assets				
Derivative financial assets	—	637	—	637
Investments – available for sale – listed	1,034	—	—	1,034
Investments – available for sale – unlisted	—	—	7	7
Other financial assets at fair value	—	—	2,820	2,820
Total financial assets measured at fair value	**1,034**	**637**	**2,827**	**4,498**
Financial liabilities				
Derivative financial liabilities	—	953	—	953
Other financial liabilities at fair value	—	—	149	149
Total financial liabilities measured at fair value	**—**	**953**	**149**	**1,102**

CYBG Group's fair values for financial instruments that are measured subsequent to initial recognition at fair value are based on the following methodologies and assumptions:

(a) *Available for sale – Investments* – The fair values of listed investments are based on quoted closing market prices. For unlisted equity investments CYBG Group's share of the net asset value of the undertaking is considered the best representation of the fair value of the investment.

(b) *Available for sale – Other* – The fair value of deferred consideration is determined from a discounted cash flow model incorporating estimated attrition rates and investment growth rates appropriate to the underlying funds under management.

(c) *Other financial assets and liabilities at fair value* – Fair values are derived from data or valuation techniques based upon observable market data and non-observable inputs as appropriate to the nature and type of the underlying instrument.

(d) *Derivative financial assets and liabilities* – The fair value of derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices as at the balance sheet date, discounted cash flow models or option pricing models as appropriate.

There were no transfers between Level 1 and 2 in the year.

Assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	Year ended 30 September 2015		
	Financial assets available for sale	Other financial assets at fair value	Other financial liabilities at fair value
		£m	
Level 3 movements analysis			
Balance at the beginning of the year	7	1,583	(91)
Total gains/(losses)			
In profit or loss(1)	—	2	2
Purchases	8	—	—
Settlements	—	(488)	22
Balance at the end of the year	**15**	**1,097**	**(67)**

	Year ended 30 September 2014		
	Financial assets available for sale	Other financial assets at fair value	Other financial liabilities at fair value
		£m	
Balance at the beginning of the year	7	2,171	(123)
Total gains/(losses)			
In profit or loss[(1)]	—	(56)	4
Settlements	—	(532)	28
Balance at the end of the year	**7**	**1,583**	**(91)**

	Year ended 30 September 2013		
	Financial assets available for sale	Other financial assets at fair value	Other financial liabilities at fair value
		£m	
Balance at the beginning of the year	7	4,295	(149)
Total gains/(losses)			
In profit or loss[(1)]	—	(142)	6
Sales	—	(1,475)	—
Settlements	—	(507)	20
Balance at the end of the year	**7**	**2,171**	**(123)**

	Year ended 30 September 2012		
	Financial assets available for sale	Other financial assets at fair value	Other financial liabilities at fair value
		£m	
Balance at the beginning of the year	7	—	—
Total gains/(losses)			
In profit or loss[(1)]	1	—	—
Settlements	(1)	—	—
Transfers into level 3 from level 2	—	4,295	(149)
Balance at the end of the year (includes assets held for sale)	**7**	**4,295**	**(149)**

(1) Net gains or losses were recorded in other operating income, interest income or interest expense and impairment losses as appropriate.

There were no transfers out of Level 3 in the year ended 30 September 2015 (year ended 30 September 2014: Nil; 2013: Nil; 2012: Nil).

Settlements for the year ended 30 September 2015 include a realised loss of £33 million (year ended 30 September 2014: loss of £12 million; year ended 30 September 2013: loss of £37 million; year ended 30 September 2012: £Nil) relating to financial assets that are measured at fair value at the end of each reporting period. Such fair value gains or losses are included in non-interest income (note 7).

Quantitative information about significant unobservable inputs in Level 3 valuations

The tables below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs.

30 September 2015	Fair value	Valuation technique	Unobservable inputs	Low range	High range
	£m				
Financial assets					
Investments – available for sale – unlisted	8	Underlying / net asset value	Price	Nil	Market value on disposal
Available for sale – other	7	Discounted cash flow	Customer attrition rate	10%	30%
Other financial assets at fair value	1,097	Discounted cash flow	Portfolio lifetime probability of default	4.4%	11.3%

(1) These shares are illiquid and fair value is the best estimate of the high range, which is equivalent to the recoverable amount of our share of the underlying assets.

The unlisted available for sale investments primarily relates to CYBG Group's holding of shares in Vocalink Limited, an unquoted company registered in England and Wales which operates the BACS and direct debits schemes in the UK as well as connecting ATMs using the LINK network. This represents CYBG Group's percentage holding in this entity. The valuation is based on the net asset value in the most recent set of publicly available financial statements and represents the fair value of the investment.

The Available for Sale – Other financial asset represents deferred consideration receivable following the purchase of CYB Intermediaries Holdings Limited from the ultimate parent on 30 September 2015 and consists of the rights to future commissions. The valuation is determined from a discounted cash flow model incorporating estimated attrition rates and investment growth rates appropriate to the underlying funds under management.

CYBG Group has £67 million (30 September 2014: £91 million; 2013: £123 million; 2012: £149 million) of financial liabilities at fair value classed as Level 3 which represent a portfolio of term deposits that are directly linked to the customer loans, which are also held at fair value and classed as Level 3. Their relationship to the fair value assets is such that should the liability be settled, the amount payable would be net of the fair value asset.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements is in respect of CYBG Group's fair value loan portfolio.

The most significant inputs impacting the carrying value of the loans other than interest rates are future expectations of credit losses. If lifetime expected losses were 20 per cent. greater than predicted, the carrying value of the loans would decrease by £8 million (30 September 2014: £15 million; 2013: £15 million; 2012: £14 million) and vice versa. The most significant input impacting the carrying value of the Available for sale – other asset is the fund under management attrition rate. If this rate was 30 per cent. the carrying value would reduce by £3 million, if it was 10 per cent. the carrying value would increase by £2 million. CYBG Group currently assumes a 15 per cent. attrition rate.

There are inter-dependencies between a number of the key assumptions which add to the complexity of the judgements CYBG Group has to make which mean that no single factor is likely to move independently of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

Other than these significant Level 3 measurements, CYBG Group has a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonable alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity on these remaining Level 3 measurements.

39. **Financial risk management**

Strategy in using financial instruments

By their nature, CYBG Group's activities are principally related to the use of financial instruments including derivatives. CYBG Group accepts deposits from customers at both fixed and floating rates for various periods, and seeks to earn interest margins by investing these funds in assets. CYBG Group seeks to improve these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

Fair value hedges

CYBG Group hedges part of its existing interest rate and foreign currency risk, resulting from potential movements in the fair value of fixed rate assets and liabilities, attributable to both interest rate and foreign currency risk using interest rate and cross currency swaps. The net fair value of these swaps is disclosed in note 15. There were no transactions for which fair value hedge accounting had to be discontinued in the year.

Cash flow hedges

CYBG Group hedges a portion of the variability in future cash flows attributable to interest rate and foreign currency risk arising from variable interest rate assets and liabilities using cross currency and interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued in the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives entered into is also disclosed in note 15.

Credit risk

Credit risk is inherent within any transaction that creates an actual or potential obligation for a borrower to pay CYBG Group.

CYBG Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate, and personal guarantees where appropriate.

Derivatives

CYBG Group maintains control limits on net open derivative positions. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to CYBG Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Master netting agreements and collateral arrangements

CYBG Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with the favourable contracts is reduced by a master netting arrangement to the extent that if a counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis. Derivative financial instrument contracts are typically subject to the International Swaps and

Derivatives Association ("**ISDA**") master netting agreements, as well as Credit Support Annexes ("**CSA**") where relevant, around collateral arrangements attached to those ISDA agreements, or derivative exchange or clearing counterparty agreements if contracts are settled via an exchange or clearing house.

Credit-related commitments

Credit-related commitments are facilities where CYBG Group is under a legal obligation to extend credit unless some event occurs, which gives CYBG Group the right, in terms of the commitment letter of offer or other documentation, to withdraw or suspend the facilities. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that CYBG Group will make payments in the event that a customer cannot meet its obligations to third parties, carry similar credit risk to loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, CYBG Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. In the event of a deterioration of a customer's circumstances lending can often be withdrawn. CYBG Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Forbearance

Identification and classification

Forbearance is considered to take place when CYBG Group grants concessions to assist customers who are experiencing, or who are about to experience, difficulties in meeting their financial commitments to CYBG Group.

A concession refers to either of the following actions:

- a modification of the previous terms and conditions of a debt; and/or
- a total or partial refinancing of a contract.

Typically, concessions will include the granting of more favourable terms and conditions than those provided either at drawdown of the facility or which would not ordinarily be available to others with a similar risk profile. Loans that have been renegotiated and/or restructured for solely commercial reasons, where there is no financial difficulty, are not treated as forborne.

CYBG Group continues to develop its forbearance policies and practices. During the year ending 30 September 2015, the policy guidance for non-retail forbearance has been revised such that financial or non-financial covenant breaches (whether waived or rights reserved) and financial covenant resets, are now considered to require an assessment for forbearance concessions where customers are experiencing, or are about to experience, difficulties in meeting their financial commitments to CYBG Group. For the year ended 30 September 2014, CYBG Group aligned the reporting of forbearance with the guidance established by the EBA for FINREP reporting. The revised policies and definitions include an extension to the minimum period after which loans can exit forborne status (to two years), resulting in a number of loans which would have previously been deemed to have exited forbearance being brought into scope for disclosure. It is not practicable to retrospectively apply the revised policies to comparative periods prior to 30 September 2014, consequently no comparative disclosures are presented for 30 September 2013 and 30 September 2012 as these would not be comparable.

CYBG Group recognises that forbearance alone is not necessarily an indicator of impaired status but is a trigger for the review of the customer's credit profile. CYBG Group grants forbearance when it believes that there is a realistic prospect of the customer continuing to be able to repay all facilities in full. If there is any concern over future cash flows and CYBG Group incurring a loss, then forborne loans will also be classified as impaired in accordance with CYBG Group's impairment policy.

Depending on circumstances and when operated within robust parameters and controls, CYBG Group believes forbearance can help support the customer in the short to medium-term.

A range of parameters are considered when CYBG Group looks to identify those customers to whom forbearance would be applicable and these parameters are regularly reviewed and refined as necessary to ensure they are consistent with the latest industry guidance and prevailing practice as well as ensuring that they adequately capture and reflect the most recent customer behaviours and market conditions. CYBG Group continues to make every effort to follow its principles of treating customers fairly and aligns its forbearance practices to those principles.

CYBG Group operates a range of forbearance measures depending on the type of customer and exercises forbearance in two distinct areas: retail and non-retail.

Exit from forbearance

Exposures classified as forborne and performing at the date forbearance measures are granted, continue to be reported as subject to forbearance for a minimum period of two years from that date (the "**Probation Period**").

In addition, each of the following requirements need to be met at the end of the two year Probation Period referred to above for the exposure to exit from being classified as forborne:

- none of the exposures to the customer are more than 30 days past due at the end of the Probation Period; and
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the Probation Period. This assessment is based on the forbearance terms for repayment.

When the conditions are not met at the end of the Probation Period, the exposure shall continue to be identified as a performing forborne exposure until all of the conditions are met.

Exposures classified as forborne and which are non-performing when, or after, customers were granted forbearance cannot exit non-performing status for a minimum of twelve months from the date forbearance was granted, and cannot exit forbearance status for a further two years from the date of returning to performing status (three years in total).

Retail forbearance

Forbearance may be extended to retail customers (primarily on residential mortgages) when they have been identified as experiencing, or are about to experience, difficulties in meeting their financial commitments to CYBG Group. CYBG Group makes every effort to work with customers in times of financial difficulty in order to find a solution that brings customer facilities back into a sustainable position which, for residential mortgages, also means keeping customers in their homes.

Forbearance is exercised on retail customers in a number of different ways and is specific to the individual customer and their circumstances. Customers may potentially be subject to more than one forbearance strategy at any one time where this is considered to be the most appropriate course of action. CYBG Group has implemented appropriate policies and procedures to ensure consistent application of forbearance. The operation, maintenance and governance surrounding these policies are regularly reviewed to confirm they remain relevant, appropriate and, most importantly, of value to our retail customers who have been identified as requiring forbearance.

At an operational level, the majority of forbearance measures are granted by mortgage collections who seek to negotiate positive outcomes for customers who have fallen into arrears. Forbearance is also exercised from within a dedicated Financial Management and Customer Solutions Team ("**FMCST**"), part of whose remit is to assist retail customers in financial difficulty to manage their finances more effectively on a case by case basis. The support provided by FMCST is tailored specifically for individual customers and includes an income and expenditure assessment along with other relevant financial management support.

CYBG Group classifies the forbearance measures offered to retail customers into the following categories:

Formal arrangements: A permanent change which could include capitalisation of arrears, or arrangement with the customer to repay arrears over a shorter period than capitalisation would involve;

Temporary arrangements: Short terms measures that allow a period of relief for customers in financial difficulty, these can include short-term payment holidays;

Interest only conversion: A permanent or temporary conversion to interest only repayments, allowing the customer to maintain payments with the intention that the capital balance outstanding would be recovered at the end of the term;

Term extension: A permanent change to the loan term allowing the customer to make lower repayments whilst still repaying the outstanding balance in full, over a longer period;

Other: A segment of forbearance exposures specifically dealt with through FMCST which includes product switches;

Legal: Court mandated forbearance exposures;

Where CYBG Group has made a demand for repayment, the customers' facilities have been withdrawn or where a debt repayment process has been initiated, the exposure is classified as forborne if the debt is subject to any of the forbearance concessions above.

Retail forbearance – Mortgage lending

The tables below summarise the number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. CYBG Group reports retail forbearance at the exposure level. Where a customer is subject to more than one forbearance measure, they have been categorised into the primary method of forbearance:

As at 30 September 2015[1]	**Total loans and advances subject to forbearance measures**			**Impairment allowance on loans and advances subject to forbearance measures**	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		£m	*%*	*£m*	*%*
Formal arrangements	2,115	179	0.87	4.0	2.22
Temporary arrangements	985	99	0.48	1.5	1.57
Interest only conversion	88	12	0.06	—	0.15
Term extension	131	11	0.06	0.1	0.84
Other	11	1	0.01	—	0.39
Legal	216	23	0.11	1.5	6.56
	3,546	**325**	**1.59**	**7.1**	**2.19**

As at 30 September 2014[1]	**Total loans and advances subject to forbearance measures**			**Impairment allowance on loans and advances subject to forbearance measures**	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		£m	*%*	*£m*	*%*
Formal arrangements	2,282	189	1.03	3.7	1.97
Temporary arrangements	581	49	0.27	1.1	2.24
Interest only conversion	40	7	0.04	—	0.02
Term extension	72	6	0.03	—	0.03
Other	6	1	—	—	0.61
Legal	221	25	0.14	2.0	7.90
	3,202	**277**	**1.51**	**6.8**	**2.46**

(1) All forbearance reporting is at the balance sheet date.

CYBG Group also has a number of customers with interest only mortgages past maturity, not subject to forbearance. CYBG Group has formal processes embedded to pro-actively track and facilitate pre-maturity customer engagement to bring the cases to a formal conclusion which is generally aimed to be achieved within six months after the loan has reached maturity. Complex cases can take longer than this to reach conclusion. At 30 September 2015, CYBG Group had 116 (30 September 2014: 162) customers with interest only mortgages not subject to forbearance and which were post six month maturity with a total value of £12 million (30 September 2014: £20 million).

A further forbearance reserve of £4 million (30 September 2014: £4 million) is presently held within the overall collective provision. The effect of this on the above tables would be to increase the impairment allowance noted above to £11 million and to increase overall coverage to 3.4 per cent.

When all other avenues of resolution including forbearance have been explored CYBG Group will take steps to repossess and sell underlying collateral. In the year to 30 September 2015 there were 87 repossessions of which 17 were voluntary (year ended 30 September 2014: 155 including 53 voluntary).

Retail forbearance – consumer credit

CYBG Group currently exercises limited forbearance strategies in relation to other types of consumer credit, including money transmission accounts, unsecured loans and credit cards. Forbearance strategies implemented on consumer credit are of low financial significance in the context of CYBG Group's overall lending operations. CYBG Group reports consumer credit forbearance at the exposure level.

CYBG Group has assessed the total loan balances subject to forbearance on other types of consumer credit to be £18 million at 30 September 2015 (30 September 2014: £22 million), representing 1.62 per cent. of the total portfolio (30 September 2014: 1.87 per cent.). Impairment provisions on forborne balances totalled £5.5 million at 30 September 2015 (30 September 2014: £6 million), providing overall coverage of 29.90 per cent. (30 September 2014: 27.03 per cent.).

Non-retail forbearance

Forbearance may be extended to non-retail customers for reasons relating to the actual, or apparent, financial stress of the customer or when they have been identified as experiencing, or are about to experience, difficulties in meeting their financial commitments to CYBG Group. Authority to grant forbearance measures for non-retail customers is held by CYBG Group's SBS unit and is exercised, where appropriate, on the basis of detailed consideration of a customer's financial position and prospects.

CYBG Group reports non-retail forbearance at a customer level, with customers that have forbearance granted on one or more facilities recorded as a single customer, but at a value which incorporates all facilities and the related impairment allowance irrespective of whether each individual facility is subject to forbearance. Where a customer is part of a larger group, forbearance is exercised and reported across the group at the individual entity level. Forbearance is considered to exist where one or more of the following occurs, on a non-commercial basis, for reasons relating to the actual or apparent stress of a customer:

- *Term extension* – Extending the loan facility payment term or the term of an overdraft which is not fluctuating (e.g. where a term loan has matured and the balance passed to an overdraft which is then extended on a non-commercial basis, then forbearance is considered to exist).
- *Deferral of contracted capital repayments* – Includes capital repayment holiday, conversion to interest only for an extended period, or rescheduling, but still repaying within the remaining contracted term.
- *Reduction in the contracted interest rate* – Includes a reduction in the level of accrued interest or amendment to original fee structure.
- *Alternative forms of payment* – Including debt for equity, asset transfer and repayment made by taking possession of collateral;
- *Debt forgiveness* – Total or partial debt forgiveness by write-off of the debt.
- *Refinancing* – A complete or partial repayment of a loan with a new contract granted on or up to 3 months after the day when the original contract expires. In the case of partial repayment both the original and new loans shall be classified as forborne.
- *Covenant breach/reset* – Financial or non-financial covenant breach (whether waived or rights reserved) and financial covenant resets.

Where CYBG Group has made a demand for repayment, where the customers facilities have been withdrawn or where a debt repayment process has been initiated this will be classified as forbearance if the debt is subject to any of the forbearance concessions above.

Where modification of the terms and conditions of an exposure meeting the criteria for classification as forbearance results in derecognition of loans and advances from the balance sheet and the recognition of a new exposure, the new exposure shall be treated as forborne.

CYBG Group has identified a number of situations that in isolation are not considered to be forbearance:

- Facilities that have been temporarily extended pending review and no concession has been granted for reasons relating to the actual or apparent financial stress of a customer.
- A reduction in asset quality to a level where actual, or apparent, financial stress is not evident.

- Where changes are made to the terms of a borrower's interest structure or repayment arrangement on a commercial basis.
- Late provision of financial information, in the absence of other indicators of financial difficulty, is not in all cases considered a "non-commercial" breach of non-financial covenants.

The tables below summarise the total number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. Where a customer is subject to more than one forbearance measure, they have been categorised into the primary method of forbearance:

As at 30 September 2015	**Total loans and advances subject to forbearance measures**			**Impairment allowance on loans and advances subject to forbearance measures**	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		£m	*%*	*£m*	*%*
Term extension	491	429	6.00	42.9	10.02
Deferral of contracted capital repayments	166	152	2.12	18.6	12.23
Reduction in contracted interest rate	17	29	0.40	6.8	23.64
Alternative forms of payment	3	16	0.22	4.5	28.76
Debt forgiveness	24	55	0.78	14.2	25.61
Refinancing	33	61	0.86	4.7	7.56
Covenant breach/waiver	62	166	2.32	6.0	3.64
	796	908	12.70	97.7	10.77

As at 30 September 2014[1]	**Total loans and advances subject to forbearance measures**			**Impairment allowance on loans and advances subject to forbearance measures**	
	Number of loans	**Gross carrying amount**	**% of total portfolio**	**Impairment allowance**	**Coverage**
		£m	*%*	*£m*	*%*
Term extension	573	466	5.76	51.5	11.03
Deferral of contracted capital repayments	192	264	3.26	39.1	14.83
Reduction in contracted interest rate	23	17	0.20	3.4	20.34
Alternative forms of payment	11	27	0.33	12.7	47.07
Debt forgiveness	43	82	1.02	19.5	23.64
Refinancing	49	48	0.60	2.3	4.81
Covenant breach/wavier	75	297	3.67	7.6	2.55
	966	**1,201**	**14.84**	**136.1**	**11.32**

(1) All forbearance reported is at the balance sheet date.

Included in other financial assets at fair value is a portfolio of loans which are included in the above table. The value of fair value loans subject to forbearance at 30 September 2015 is £162 million (30 September 2014: £133 million), representing 2.27 per cent. of the total non-retail portfolio (30 September 2014: 1.65 per cent.). Impairment allowances on these amounts totalled £14 million (30 September 2014: £29 million), a coverage of 8.68 per cent. (30 September 2014: 21.69 per cent.).

Maximum exposure to credit risk

CYBG Group has comprehensive credit risk management policies that restrict the level of exposure to any one borrower or group of borrowers, industries and countries. Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through use of master netting and collateral agreements. The table also shows the maximum amount of commitments from its banking operations.

	30 September			
	2015	**2014**	**2013**	**2012**
		£m		
Cash and balances with central banks (note 11)	6,431	5,986	6,720	7.927
Due from related entities (note 12)	786	1,487	1,390	1,256
Due from other banks	128	13	184	14
Financial assets – available for sale (note 13)	1,462	1,168	975	1,041
Other financial assets at fair value (note 14)	1,097	1,583	2,171	2,820
Derivative financial assets (note 15)	285	220	244	637
Loans and advances to customers (note 16)	27,482	25,901	23,960	24,418
Due from customers on acceptances	4	5	4	7
Assets held for sale (note 26)	—	—	—	5,225
	37,675	36,363	35,648	43,345
Contingent liabilities (note 35)	109	136	213	286
Other credit commitments (note 35)	7,801	8,422	8,696	9,290
Commitments relating to assets held for sale	—	—	—	140
Maximum credit risk exposure	**45,585**	**44,921**	**44,557**	**53,061**

Offsetting of financial assets and liabilities

CYBG Group and Clydesdale Bank do not have any financial assets or financial liabilities that are offset with the net amount presented on the balance sheet as IAS 32 'Financial Instruments – Presentation' states that there should be both an enforceable right to set-off and the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously. Neither of these conditions is met by CYBG Group or Clydesdale Bank. The table below illustrates the amounts for financial instruments that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. loans and advances).

The net amounts presented in the table are not intended to represent CYBG Group's exposure to credit risk, as CYBG Group will use a wide range of strategies to mitigate credit risk in addition to netting and collateral.

The offsetting and collateral arrangements and other credit risk mitigation strategies are further explained in the preceding sections of this note:

30 September 2015	**Amounts subject to enforceable netting arrangements**							
	Effect of offsetting on balance sheet			**Related amounts not offset**				
	Gross amount	**Amount offset**	**Net amount reported on balance sheet**	**Financial instruments (1) (2) (3)**	**Cash collateral (2) (3)**	**Net amount**	**Amounts not subject to enforceable netting arrangements**	**Total recognised on balance sheet**
Assets								
Derivative financial instruments[4]	149	—	149	(149)	—	—	136	285
Securities purchased under agreement to resell[6]	—	—	—	—	—	—	—	—
Total assets	149	—	149	(149)	—	—	136	285
Liabilities								
Derivative financial instruments[4]	492	—	492	(149)	(246)	97	42	534
Securities sold under repurchase agreements[5]	—	—	—	—	—	—	—	—
Total liabilities	**492**	**—**	**492**	**(149)**	**(246)**	**97**	**42**	**534**

30 September 2014	Amounts subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross amount	Amount offset	Net amount reported on balance sheet	Financial instruments (1) (2) (3)	Cash collateral (2) (3)	Net amount	Amounts not subject to enforceable netting arrangements	Total recognised on balance sheet
				£m				
Assets								
Derivative financial instruments(4)	88	—	88	(88)	—	—	132	220
Total assets	**88**	**—**	**88**	**(88)**	**—**	**—**	**132**	**220**
Liabilities								
Derivative financial instruments(4)	522	—	522	(88)	(317)	117	26	548
Securities sold under repurchase agreements(5)	644	—	644	(644)	—	—	—	644
Total liabilities	**1,166**	**—**	**1,166**	**(732)**	**(317)**	**117**	**26**	**1,192**

30 September 2013	Amounts subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross amount	Amount offset	Net amount reported on balance sheet	Financial instruments (1) (2) (3)	Cash collateral (2) (3)	Net amount	Amounts not subject to enforceable netting arrangements	Total recognised on balance sheet
				£m				
Assets								
Derivative financial instruments(4)	103	—	103	(103)	—	—	141	244
Total assets	**103**	**—**	**103**	**(103)**	**—**	**—**	**141**	**244**
Liabilities								
Derivative financial instruments(4)	615	—	615	(103)	(408)	104	36	651
Total liabilities	**615**	**—**	**615**	**(103)**	**(408)**	**104**	**36**	**651**

30 September 2012	Amounts subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross amount	Amount offset	Net amount reported on balance sheet	Financial instruments (1) (2) (3)	Cash collateral (2) (3)	Net amount	Amounts not subject to enforceable netting arrangements	Total recognised on balance sheet
				£m				
Assets								
Derivative financial instruments(4)	360	—	360	(360)	—	—	273	633
Total assets	**360**	**—**	**360**	**(360)**	**—**	**—**	**273**	**633**
Liabilities								
Derivative financial instruments(4)	1,040	—	1,040	(360)	(624)	56	55	1,095
Securities sold under repurchase agreements(4)	78	—	78	(78)	—	—	—	78
Total liabilities	**1,118**	**—**	**1,118**	**(438)**	**(624)**	**56**	**55**	**1,173**

(1) Financial instruments include recognised financial instruments on the balance sheet.

(2) Amounts relate to master netting and collateral agreements which have been determined to be legally enforceable but do not meet all criteria required for net presentation within the consolidated statement of financial position.

(3) Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order to exclude any over-collateralisation.

[4] Derivative financial instruments comprise of both trading and hedging derivative assets and liabilities.

[5] Securities sold under repurchase agreements are reported on CYBG Group's balance sheet within "due to other banks".

[6] Securities purchased under agreements to resell are reported on CYBG Group's balance sheet within "due from other banks".

Derivative assets and liabilities

Derivative financial instrument contracts are typically subject to ISDA master netting agreements, as well as CSA, where relevant, around collateral arrangements attached to those ISDA agreements, or derivative exchange or clearing counterparty agreements if contracts are settled via an exchange or clearing house. The amounts included in the Financial Instruments column refers to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement.

Repurchase agreements

Repurchase agreements will typically be subject to global master repurchase agreements or similar agreements whereby all outstanding transactions with the same counterparty can be offset and closed out upon a default or insolvency event (i.e. close out netting).

Where CYBG Group has a right of offset on default or insolvency only, the related financial instruments comprise of highly liquid securities pledged, which can be realised in the event of a default or insolvency by the counterparty.

Credit quality of financial assets

An assessment of the credit quality of loans and advances to customers can be found in note 16 with an assessment of the credit quality of investments contained in note 13.

Collateral held as security and other credit enhancements

CYBG Group evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by CYBG Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- specific charges over defined assets of the counterparty;
- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or interlocking guarantees; and
- loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

Generally, CYBG Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet.

It is CYBG Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, CYBG Group does not occupy repossessed properties for its own business use.

Residential mortgages

Residential property is CYBG Group's main source of collateral and means of mitigating loss in the event of default credit risk inherent in its residential mortgage portfolios. All lending activities are supported by an appropriate form of valuation using either professional valuers or indexed valuation subject to business rules and confidence levels. The loan to value ratio of CYBG Group's mortgage portfolio is disclosed in note 16.

Commercial property

Commercial property is CYBG Group's main source of collateral on commercial lending and means of mitigating loss in the event of default credit risk inherent in its commercial portfolios. Collateral for the majority of commercial loans comprises first legal charges over freehold or long leasehold property (including formal Companies House registration where appropriate).

Non-property related collateral

Apart from residential and commercial property based security, CYBG Group also takes other forms of collateral when lending and this can involve obtaining security against the underlying loan through the use of cash collateral and/or netting agreements, both of which reduce the original exposure by the amount of collateral held, subject to volatility and maturity adjustments where applicable.

CYBG Group also operates a policy of obtaining security against the underlying loan through the use of guarantees, which can be either limited or unlimited, making the guarantor liable for only a portion or all of the debt.

Corporate is the largest sector for other risk mitigation techniques, with all three methods utilised dependent on credit quality. The extent to which these will be used will be dependent on the specific circumstances of the customer.

Risk concentration

Concentration of risk is managed by client/counterparty, by product, by geographical region and by industry sector. In addition, single name exposure limits exist to limit exposure to a single entity/counterparty.

Eurozone risk

CYBG Group has no material operations outside the UK and has no direct sovereign exposure to any Eurozone countries (30 September 2014: Nil; 2013: Nil; 2012: Nil). CYBG Group has an exposure to the European Investment Bank of £100 million at 30 September 2015 (30 September 2014: £100 million; 2013: £100 million; 2012: £100 million).

Industry concentration of assets

The following tables show the levels of industry concentration of credit risk at the dates indicated:

Gross loans and advances to customers including loans designated at fair value through profit or loss and assets held for sale at 30 September 2012[(1)]	**30 September**			
	2015	**2014**	**2013**	**2012**
	£m			
Government and public authorities	27	55	35	39
Agriculture, forestry, fishing and mining	1,515	1,677	1,758	1,913
Financial, investment and insurance	659	421	553	886
Property – construction	260	394	516	3,722
Manufacturing	576	733	723	922
Instalment loans to individuals and other personal lending (including credit cards)	1,477	1,712	1,902	2,372
Property – mortgage	20,504	18,444	16,148	15,369
Asset and lease financing	426	417	482	694
Other commercial and industrial	3,340	3,851	4,388	7,411
	28,784	**27,704**	**26,505**	**33,328**

(1) Includes balance due from customers on acceptances.

Contingent liabilities and credit related commitments	**30 September**			
	2015	**2014**	**2013**	**2012**
		£m		
Government and public authorities	—	8	—	—
Agriculture, forestry, fishing and mining	985	1,022	1,006	753
Financial, investment and insurance	405	43	56	66
Property – construction	44	75	98	543
Manufacturing	146	188	228	211
Instalment loans to individuals and other personal lending (including credit cards)	3,410	3,742	3,939	3,674
Property – mortgage	1,814	2,107	2,010	1,724
Other commercial and industrial	1,106	1,373	1,572	2,745
	7,910	**8,558**	**8,909**	**9,716**

Available for sale and held to maturity investments	**30 September**			
	2015	**2014**	**2013**	**2012**
		£m		
Government and public authorities	1,447	1,161	968	1,034
Financial, investment and insurance	15	7	7	7
	1,462	**1,168**	**975**	**1,041**

Market risk

Market risk is the risk that movements in market factors, including foreign exchange rates, interest rates, credit spreads and equity prices, will reduce income or portfolio values.

The focus of CYBG Group's activity is to provide high quality banking services to its customers. These services include the provision of foreign exchange and derivative products to enable customers to manage risks within their businesses. As a result of these activities, CYBG Group may be exposed to forms of market risk that would arise from movements in price on these products. These risks are managed to a de minimus risk position in accordance with CYBG Group's Trading Policy Statement.

CYBG Group's participation in wholesale markets, along with its use of financial instruments, is to fund its banking activities and to manage the liquidity and interest rate risks arising from these activities.

Interest rate risk in the banking book ("IRRBB")

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with NAB IRRBB policy. Risk measurement techniques include: VaR, EaR, interest rate risk stress testing, repricing analysis, cash flow analysis, and scenario analysis.

The key features of the internal interest rate risk management model are:

- Historical simulation approach utilising instantaneous interest rate shocks including parallel rate movements and twists in the yield curve to explore risks around exposures to movements in short or long term interest rates.
- Static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing).
- VaR and EaR are measured on a statistical basis: 99 per cent. confidence level; three month holding period.
- Economic capital is allocated for IRRBB based on a higher confidence interval and a longer holding period.
- EaR utilises a twelve month forecast period.
- Eight years of business day historical data.
- VaR methodology is based on proportional rather than absolute changes in historical interest rates.

- Investment term for capital is modelled with an established benchmark term of between one and five years.
- Investment term for core "non-interest" bearing assets and liabilities is modelled on a behavioural basis with an established benchmark term of between one and five years.

Model parameters and assumptions are reviewed and updated on at least an annual basis. Material changes require the approval of the Asset and Liability Committee.

Interest rate risk	**Value at risk**				**Earnings at risk**			
	30 September				**30 September**			
	2015	**2014**	**2013**	**2012**	**2015**	**2014**	**2013**	**2012**
	£m							
As at 30 September	27	36	30	31	9	2	7	4
Average value during the year	25	37	32	37	5	3	9	6
Minimum value during the year	19	32	29	31	2	2	3	12
Maximum value during the year	29	48	35	45	9	8	20	13

The following table shows CYBG Group's principal financial assets and liabilities and the main non-traded market risk types they are exposed to:

	2015 £m	**Liquidity risk**	**Interest rate risk**	**Foreign exchange risk**	**Credit risk**
Assets					
Cash and balances with central banks	6,431				✓
Financial assets available for sale investments	1,462	✓	✓		✓
Loans and advances to customers	27,482	✓	✓	✓	✓
Derivative financial instruments	285	✓	✓	✓	✓
Other financial assets at fair value	1,097	✓	✓		✓
Liabilities					
Due to customers	26,407	✓	✓	✓	
Due to other banks	393	✓	✓	✓	
Derivative financial instruments	534	✓	✓	✓	
Other financial liabilities at fair value	67	✓	✓	✓	
Bonds and notes	3,766	✓	✓	✓	

Prepayment risk

Customers may prepay certain loans and advances ahead of the contractual repayment schedule. This form of optionality gives rise to prepayment risk for CYBG Group whereby the expected timing of cashflows from loan repayments differs from the actual experience. The impact on CYBG Group would differ according to changes in the level of interest rates.

CYBG Group assesses the risks arising from prepayment behaviour in order to show the potential impact on future cashflows. The impact is also managed through terms and conditions within loans and advances.

Maturity analysis of assets and liabilities

The following tables represent a breakdown of CYBG Group's balance sheet according to the assets and liabilities contractual maturity. Many of the longer-term monetary assets are variable rate products, with behavioural maturities shorter than the contractual terms. Accordingly, this information is not relied upon by CYBG Group in its management of interest rate risk.

CYBG Group has disclosed certain term facilities with a revolving element at the maturity of the facility as this best reflects their contractual maturity.

30 September 2015	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Assets							
Cash and balances with central banks	4,978	—	—	—	—	1,453	6,431
Due from related entities	772	—	—	—	14	—	786
Due from other banks	36	92	—	—	—	—	128
Financial assets – available for sale	—	—	100	782	565	15	1,462
Other financial assets at fair value	1	11	78	731	276	—	1,097
Derivative financial instruments	3	27	48	70	137	—	285
Loans and advances to customers	2,221	203	701	3,844	20,137	376	27,482
Due from customers on acceptances	—	4	—	—	—	—	4
All other assets	86	58	47	—	—	839	1,030
Total assets	**8,097**	**395**	**974**	**5,427**	**21,129**	**2,683**	**38,705**
Liabilities							
Due to other banks	—	390	3	—	—	—	393
Other financial liabilities at fair value	—	1	1	65	—	—	67
Derivative financial instruments	3	28	41	248	214	—	534
Due to customers	20,370	1,505	2,045	2,487	0	—	26,407
Liabilities on acceptances	—	4	—	—	—	—	4
Due to related entities	135	8	—	380	475	—	998
Bonds and notes	—	14	852	1,973	927	—	3,766
All other liabilities	1,825	114	114	—	—	1,040	3,093
Total liabilities	22,333	2,064	3,056	5,153	1,616	1,040	35,262
Off balance sheet items							
Contingent liabilities	—	25	13	11	52	8	109
Other credit commitments	7,801	—	—	—	—	—	7,801
Total off balance sheet items	**7,801**	**25**	**13**	**11**	**52**	**8**	**7,910**

30 September 2014	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Assets							
Cash and balances with central banks	4,670	—	—	—	—	1,316	5,986
Due from related entities	1,487	—	—	—	—	—	1,487
Due from other banks	13	—	—	—	—	—	13
Financial assets – available for sale	—	2	1	101	1,058	6	1,168
Other financial assets at fair value	3	33	105	589	853	—	1,583
Derivative financial instruments	2	29	59	47	83	—	220
Loans and advances to customers	2,519	293	769	4,063	17,893	364	25,901
Due from customers on acceptances	—	5	—	—	—	—	5
All other assets	143	71	45	—	—	770	1,029
Total assets	**8,837**	**433**	**979**	**4,800**	**19,887**	**2,456**	**37,392**
Liabilities							
Due to other banks	—	664	250	—	—	—	914
Other financial liabilities at fair value	—	2	6	65	18	—	91
Derivative financial instruments	2	36	60	170	280	—	548
Due to customers	17,872	2,039	2,464	1,698	—	—	24,073
Liabilities on acceptances	—	5	—	—	—	—	5
Due to related entities	359	8	346	838	1,126	—	2,677
Bonds and notes	—	20	730	2,039	664	—	3,453
All other liabilities	1,938	107	65	—	—	983	3,093
Total liabilities	**20,171**	**2,881**	**3,921**	**4,810**	**2,088**	**983**	**34,854**
Off balance sheet items							
Contingent liabilities	—	32	25	12	61	6	136
Other credit commitments	8,422	—	—	—	—	—	8,422
Total off balance sheet items	**8,422**	**32**	**25**	**12**	**61**	**6**	**8,558**

30 September 2013	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Assets							
Cash and balances with central banks	5,508	—	—	—	—	1,212	6,720
Due from related entities	1,381	—	—	9	—	—	1,390
Due from other banks	19	100	65	—	—	—	184
Financial assets – available for sale	—	2	—	101	866	6	975
Other financial assets at fair value	11	87	242	530	1,301	—	2,171
Derivative financial instruments	—	23	24	106	91	—	244
Loans and advances to customers	2,880	346	722	4,089	15,527	396	23,960
Due from customers on acceptances	—	4	—	—	—	—	4
All other assets	178	173	58	—	—	691	1,100
Total assets	**9,977**	**735**	**1,111**	**4,835**	**17,785**	**2,305**	**36,748**
Liabilities							
Due to other banks	—	484	37	—	—	—	521
Other financial liabilities at fair value	—	3	9	52	59	—	123
Derivative financial instruments	1	54	53	184	359	—	651
Due to customers	16,659	2,656	2,515	2,525	—	—	24,355
Liabilities on acceptances	—	4	—	—	—	—	4
Due to related entities	623	61	—	1,227	1,125	—	3,036
Bonds and notes	—	14	—	2,429	642	—	3,085
All other liabilities	1,803	100	74	—	—	547	2,524
Total liabilities	**19,086**	**3,376**	**2,688**	**6,417**	**2,185**	**547**	**34,299**
Off balance sheet items							
Contingent liabilities	1	34	63	16	90	9	213
Other credit commitments	8,696	—	—	—	—	—	8,696
Total off balance sheet items	**8,697**	**34**	**63**	**16**	**90**	**9**	**8,909**

30 September 2012	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Assets							
Cash and balances with central banks	6,800	—	—	—	—	1,127	7,927
Due from related entities	1,223	—	—	—	33	—	1,256
Due from other banks	—	14	—	—	—	—	14
Financial assets – available for sale	—	2	—	100	932	7	1,041
Other financial assets at fair value	2	73	165	1,006	1,574	—	2,820
Derivative financial instruments	—	74	50	314	199	—	637
Loans and advances to customers	4,132	560	796	3,799	14,695	436	24,418
Due from customers on acceptances	—	7	—	—	—	—	7
All other assets	152	94	78	—	—	713	1,037
Assets held for sale	587	135	723	2,462	1,298	20	5,225
Total assets	**12,896**	**959**	**1,812**	**7,681**	**18,731**	**2,303**	**44,382**
Liabilities							
Due to other banks	—	521	36	—	—	—	557
Other financial liabilities at fair value	—	2	5	74	68	—	149
Derivative financial instruments	7	88	51	236	571	—	953
Due to customers	15,599	3,761	3,453	3,802	—	—	26,615
Liabilities on acceptances	—	7	—	—	—	—	7
Due to related entities	735	25	4,350	1,006	1,600	—	7,716
Bonds and notes		24	590	1,370	1,203	—	3,187
All other liabilities	1,641	112	59	—	—	625	2,437
Liabilities associated with assets held for sale	—	—	6	48	88	—	142
Total liabilities	**17,982**	**4,540**	**8,550**	**6,536**	**3,530**	**625**	**41,763**
Off balance sheet items							
Contingent liabilities	1	57	44	74	102	8	286
Other credit commitments	9,430	—	—	—	—	—	9,430
Total off balance sheet items	**9,431**	**57**	**44**	**74**	**102**	**8**	**9,716**

Liquidity risk

Liquidity risk is the risk that CYBG Group will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. CYBG Group manages liquidity and funding risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets, maintenance of a prudent funding strategy and diversification of its funding base. CYBG Group undertakes a conservative approach by imposing internal limits, including stress and scenario testing that are in addition to regulatory requirements.

Cash flows payable under financial liabilities by contractual maturities

30 September 2015	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Due to other banks	—	390	3	—	—	—	393
Other financial liabilities at fair value	—	2	3	75	—	—	80
Trading derivative financial instruments	3	16	35	52	226	—	332
Due to customers	20,370	1,517	2,074	2,516	—	—	26,477
Liabilities on acceptances	—	4	—	—	—	—	4
Bonds and notes	—	27	918	2,152	1,123	—	4,220
All other financial liabilities	1,791	—	—	—	—	—	1,791
Hedging derivative liabilities							
Contractual amounts payable	—	49	106	669	41	—	865
Contractual amounts receivable	—	(28)	(50)	(518)	—	—	(596)
Total liabilities	**22,164**	**1,977**	**3,089**	**4,946**	**1,390**	**—**	**33,566**

30 September 2014	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Due to other banks	—	665	250	—	—	—	915
Other financial liabilities at fair value	—	3	9	79	20	—	111
Trading derivative financial instruments	2	36	24	74	275	—	411
Due to customers	17,873	2,050	2,487	1,721	—	—	24,131
Liabilities on acceptances	—	5	—	—	—	—	5
Bonds and notes	—	40	782	2,214	880	—	3,916
All other financial liabilities	1,504	—	—	—	—	—	1,504
Hedging derivative liabilities							
Contractual amounts payable	—	85	481	840	34	—	1,440
Contractual amounts receivable	—	(55)	(429)	(705)	—	—	(1,189)
Total liabilities	**19,379**	**2,829**	**3,604**	**4,223**	**1,209**	**—**	**31,244**

30 September 2013	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Due to other banks	—	484	37	—	—	—	521
Other financial liabilities at fair value	—	4	14	71	65	—	154
Trading derivative financial instruments	1	54	53	107	340	—	555
Due to customers	16,659	2,667	2,553	2,559	—	—	24,438
Liabilities on acceptances	—	4	—	—	—	—	4
Bonds and notes	—	34	57	2,627	751	—	3,469
All other financial liabilities	1,344	—	—	—	—	—	1,344
Hedging derivative liabilities							
Contractual amounts payable	—	66	172	1,109	78	—	1,425
Contractual amounts receivable	—	(59)	(173)	(1,002)	—	—	(1,234)
Total liabilities	**18,004**	**3,254**	**2,713**	**5,471**	**1,234**	**—**	**30,676**

30 September 2012	Call	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
				£m			
Due to other banks	—	522	36	—	—	—	558
Other financial liabilities at fair value	—	3	9	103	81	—	196
Trading derivative financial instruments	7	88	51	240	597	—	983
Due to customers	15,599	3,783	3,492	3,873	—	—	26,747
Liabilities on acceptances	—	7	—	—	—	—	7
Bonds and notes	—	44	647	1,598	1,313	—	3,602
All other financial liabilities	1,567	—	—	—	—	—	1,567
Hedging derivative liabilities							
Contractual amounts payable	—	2	1	—	—	—	3
Contractual amounts receivable	—	—	(4)	—	—	—	(4)
Total liabilities	**17,173**	**4,449**	**4,232**	**5,814**	**1,991**	**—**	**33,659**

The balances in the cash flow tables above will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

40. **Capital management overview (unaudited)**

Capital is held by CYBG Group to protect its depositors, to cover inherent risks in a normal and stressed operating environment and to support its business strategy against losses, inherent risks and stress events. In assessing the adequacy of its capital resources, CYBG Group considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

CYBG Group manages capital in accordance with prudential rules issued by the PRA and FCA, in line with CRD IV which implements Basel III in Europe. CRD IV legislation became effective from 1 January 2014. CYBG Group is committed to maintaining a strong capital base and has complied with all capital requirements set by the regulators throughout the period.

CYBG Group's capital position is summarised below. For the years to 30 September 2012 and 2013, the capital numbers were disclosed on a Basel II basis. For the year to 30 September 2015 and year to 30 September 2014, the table shows the capital position on a CRD IV "transitional" basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA.

Regulatory Capital	**30 September**			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
	£m			
CET1 capital				
Capital instruments	223	1,882	1,582	1,582
Retained earnings and other reserves(1)	2,097	346	535	(298)
Share premium account	670	—	—	893
Structured entities reserves(1)	—	(4)	—	—
Prudent valuation adjustment(2)	(5)	(2)	(3)	(2)
Intangible assets(3)	(265)	(213)	(215)	(198)
Deferred tax asset relying on future profitability(4)	(273)	(223)	—	—
Defined benefit pension fund assets (net of deferred tax liabilities)(5)	(42)	(39)	—	—
Pension fund deficit adjustment(6)	—	—	2	73
	2,405	**1,747**	**1,901**	**2,050**
Tier 1 capital				
Additional Tier 1 capital instruments	450	300	—	—
Perpetual non-cumulative preference shares(7)	—	—	100	100
Hybrid Tier 1 capital(8)	—	—	200	200
	450	300	300	300
Total Tier 1 capital	**2,855**	**2,047**	**2,201**	**2,350**
Tier 2 capital				
Subordinated loans(9)	460	1,125	1,125	1,125
Credit risk adjustments(10)	138	135	155	330
Revaluation reserve(11)	—	—	2	1
Excess Tier 2 capital(12)	—	—	(24)	—
Qualifying and material holding Tier 2 deductions(13)	—	—	(3)	(2)
Total Tier 2 capital	**598**	**1,260**	**1,255**	**1,454**
Total capital	**3,453**	**3,307**	**3,456**	**3,804**
Capital ratios				
CET1 ratio(14)	13.2 per cent.	9.4 per cent.	9.6 per cent.	7.7 per cent.
Tier 1 ratio	15.7 per cent.	11.0 per cent.	11.1 per cent.	8.9 per cent.
Total capital ratio(15)	18.9 per cent.	17.7 per cent.	17.5 per cent.	14.4 per cent.

(1) Under Capital Requirements Regulation, the cash flow hedge, available for sale and asset revaluation reserves now form part of regulatory capital resources. Structured entities reserves' are excluded for regulatory capital purposes.

(2) A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.

(3) Intangible assets do not qualify as capital for regulatory purposes.

(4) Under CRD IV, deferred tax assets that rely on future profitability shall be deducted from CET1 capital.

(5) Under CRD IV, defined benefit pension fund assets shall be deducted from CET1 capital (net of deferred tax liability).

(6) For regulatory capital purposes under Basel II, the pension fund deficit is added back to regulatory capital and substituted with an estimate of additional pension fund contributions to be made over the next five years, adjusted for deferred tax. CRD IV does not allow the pension fund deficit to be added back to regulatory capital.

(7) During the year ended 30 September 2014, perpetual non-cumulative preference shares were redeemed and replaced with AT1 perpetual capital notes. CYBG Group also issued an additional £300 million of ordinary shares to NAB on 27 March 2014.

(8) During the year ended 30 September 2014, hybrid Tier 1 capital instruments were redeemed and replaced with AT1 perpetual capital notes.

(9) Subordinated loans reflect the principal outstanding and does not include accrued interest.

(10) The collective provision add back is limited for regulatory capital purposes.

(11) Under CRD IV, the revaluation reserve is classified as CET1 capital.

(12) Under Basel II, lower Tier 2 capital instruments were restricted to 50 per cent. of total Tier 1.

(13) Material and qualifying holdings deducted under Basel II, are now risk weighted under CRD IV rules.

(14) CET1 capital is Tier 1 capital excluding perpetual non-cumulative preference shares and perpetual notes. CET1 ratio is defined as CET1 capital divided by RWAs at a given date.

(15) Total capital ratio is defined as total capital resources divided by RWAs at a given date.

The table below sets out CYBG Group's RWAs as at the dates indicated.

RWAs(1)	**30 September**			
	CRD IV 2015	**CRD IV 2014**	**Basel II 2013**	**Basel II 2012**
		(unaudited) £m		
Retail mortgages	7,526	6,917	6,319	6,139
Business lending	7,044	7,961	9,694	15,805
Other retail lending	951	1,030	1,071	1,104
Other lending	773	855	878	1,137
Credit risk	16,294	16,763	17,962	24,185
Credit valuation adjustment	206	137	—	—
Operational risk	1,589	1,564	1,684	1,905
Counterparty risk	138	181	170	370
Market risk	—	—	1	1
	18,227	**18,645**	**19,817**	**26,461**

(1) RWAs are calculated under the standardised approach.

41. **Events subsequent to the reporting date**

As part of the Demerger and as a term of the Sale and Purchase Agreement, NAB and the Company entered into the Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide the Company with the Capped Indemnity in respect of certain historic liabilities relating to Relevant Conduct Matters. Claims may be made by the Company under the Capped Indemnity at such time as any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter.

At the Demerger Date, the Capped Indemnity Amount is expected to be £1.115 billion. This figure is determined as follows:

- To achieve the Demerger, the PRA required there to be a capital support package amounting to £1.7 billion for potential losses of CYBG Group related to legacy conduct costs not covered by existing provisions raised by CYBG Group as at 31 March 2015.
- Of this £1.7 billion, the Company will be responsible for £120 million of the aggregate liability for Relevant Conduct Matters under the Loss Sharing Arrangement, with NAB being responsible for the remainder (being £1.58 billion).
- Of this £1.58 billion for which NAB is responsible, £465 million was provided to CYBG Group by NAB on 24 September 2015 by way of a capital injection in respect of provisions raised by CYBG Group for Relevant Conduct Matters in its accounts for the year ended 30 September 2015.

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is expected to be £1.115 billion, assuming that no further provisions in respect of Conduct Matters are raised or increased by CYBG Group and funded by way of capital support from NAB prior to the Demerger Date.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities, being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and (iii) provisions of £20 million for other conduct related matters.

In order to align the interests of NAB and the Company with respect to any such claim, the Company will be responsible under the Loss Sharing Arrangement for a fixed percentage, expected to be 9.7 per cent., of the relevant conduct liabilities forming part of the relevant provision or increase, with NAB being responsible for the remainder. The Company's Loss Share reflects the proportion of any liability in respect of a Conduct Matter that £120 million bears to the Capped Indemnity Amount plus £120 million as at the Demerger Date.

For a summary of the Conduct Indemnity Deed see: Part 2: "*Information on CYBG Group – Conduct*".

PART 9
UNAUDITED PRO FORMA FINANCIAL INFORMATION

(A) ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors
CYBG PLC
20 Merrion Way
Leeds
LS2 8NZ

The Directors
CYB Investments Limited
20 Merrion Way
Leeds
LS2 8NZ

3 February 2016

Dear Sirs

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in Part 9(B) of the Prospectus dated 3 February 2016, which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the separation of CYB Investments Limited from NAB might have affected the financial information presented on the basis of the accounting policies adopted by CYBG PLC in preparing the Historical Financial Information. This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of CYBG PLC to prepare the Pro Forma Financial Information in accordance with items 1 to 6 of Annex II of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) No 809/2004.

Yours faithfully

Ernst & Young LLP

(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION

Unaudited Pro Forma Financial Information

The unaudited pro forma statement of net assets CYBG Group as at 30 September 2015 has been prepared to illustrate the effect of the separation of CYBG Group from NAB, which will result in the settlement of certain intercompany balances and reclassification of balances with related parties as external counterparties for outstanding balances.

The Pro Forma Financial Information is based on the Historical Financial Information of CYBG Group as at 30 September 2015 and prepared on the basis that each of the transactions had taken place at 30 September 2015. These transactions have no impact on CYBG Group's income statement, net interest margin, returns on tangible equity, cost-to-income ratio, capital ratios, Leverage Ratio or RWAs. The Pro Forma Financial Information takes no account of the results of CYBG Group for the period subsequent to 30 September 2015 or for any other transactions after that date.

The unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not and will not represent CYBG Group's actual financial position.

Investors should read the whole of this Prospectus and not rely solely on the unaudited financial information contained in this Part 9. Ernst & Young LLP's report on the unaudited Pro Forma Financial Information is set out in Section A of this Part 9.

Unaudited pro forma net assets as at 30 September 2015 (£m)

	30 September 2015[(1)]	Adjustment for Settlement/ Reclassification of intercompany balances[(2)]	Pro forma net asset statement as at 30 September 2015[(3)]
Assets			
Cash and balances with central banks	6,431	—	6,431
Due from related entities	786	(786)	—
Due from other banks	128	679	807
Investments – available for sale	1,462	—	1,462
Other financial assets at fair value	1,097	—	1,097
Derivative financial instruments	285	—	285
Loans and advances to customers	27,482	—	27,482
Due from customers on acceptances	4	—	4
Current tax assets	4	—	4
Property, plant and equipment	109	—	109
Investment properties	32	—	32
Property inventory	—	—	—
Investments in controlled entities and associates	2	—	2
Intangible assets	265	—	265
Deferred tax assets	389	—	389
Defined benefit pension assets	52	—	52
Other assets	177	—	177
Total assets	**38,705**	**(107)**	**38,598**
Liabilities			
Due to other banks	393	891	1,284
Other financial liabilities at fair value	67	—	67
Derivative financial instruments	534	—	534
Due to customers	26,407	—	26,407
Liabilities on acceptances	4	—	4
Current tax liabilities	—	—	—
Provisions	1,006	—	1,006
Due to related entities	998	(998)	—
Bonds and notes	3,766	—	3,766
Retirement benefit obligations	4	—	4
Deferred tax liabilities	10	—	10
Other liabilities	2,073	—	2,073
Total liabilities	**35,262**	**(107)**	**35,155**
Net assets	**3,443**	**—**	**3,443**

Notes:

(1) The consolidated net assets as at 30 September 2015 are extracted from the Historical Financial Information.

(2) Represents the post separation cash settlement of certain balances and recognition of outstanding balances between CYBG Group and NAB assumed to remain at separation as external counterparties.

(3) On 8 February 2016, the Company will become the new holding entity of CYBG Group. The Company was incorporated on 18 May 2015 as a wholly owned subsidiary of NAB with a share capital of £1 which was increased to £50,000 on 11 September 2015, and subsequently divided into 40,000 Shares of £1.25 each. A share for share exchange will be carried out on 8 February 2016, by which, the Company will acquire the entire share capital of CYBI in exchange for the issue of 879,275,256 new ordinary shares. Under the principles of accounting for common control transactions, the accounting records reflect a continuation of the underlying business of the Company. The pro forma net assets statement as at 30 September 2015 is, therefore, equivalent to the aggregated net assets of the Company and CYBG Group following this group reconstruction. Consequently no pro forma adjustment to the net asset statement has been prepared in respect of this group reconstruction.

No pro forma adjustment has been made in relation to the changes in the AT 1 Notes and Tier 2 notes described in Part 14: "*Additional Information – Funding Programmes*", as the gain or loss of the arrangement and the amount to be recognised in the balance sheet on the Demerger Date are not yet known.

Save for the above no adjustments have been made for any transactions subsequent to 30 September 2015.

PART 10
SUPERVISION AND REGULATION

1. UK Regulators

Banks and investment firms in the UK must be authorised and are subject to regulatory supervision. Clydesdale Bank, as a bank, must comply with the relevant UK and European legislation. Certain other members of CYBG Group, including Yorkshire Bank Home Loans Limited and CYB Intermediaries Limited, also undertake regulated activities and are subject to certain elements of the regulatory regime.

Outlined below is an overview of UK and European regulation applicable to CYBG Group.

1.1 *The PRA, the FCA and the FPC*

The Financial Services Act 2012 (the "**FSA 2012**") introduced a range of structural reforms to UK financial regulatory bodies, with the FSA being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the FPC. Clydesdale Bank is authorised by the PRA and is regulated by both the PRA and the FCA. Other entities in CYBG Group which are regulated in the UK include Clydesdale Bank Asset Finance Limited, Yorkshire Bank Home Loans Limited and CYB Intermediaries Limited, which are authorised and regulated by the FCA. CGF No. 9 Limited has received interim permission from the FCA to perform consumer credit activities and its application for full consumer credit permissions is pending approval by the FCA. Clydesdale Bank has received an interim variation of permission for its consumer credit related activity while the FCA continues its review to confirm the full approval of those permissions.

The PRA, a subsidiary of the Bank of England, has responsibility for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, including banks, insurers and some large investment firms. The PRA's general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to:

- ensure that the business of a PRA-authorised firm is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

When discharging its general functions in a way that advances its objectives, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by a PRA-authorised firm carrying on regulated activities.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA also has responsibility for market regulation and represents the UK's interests in this area at the European Securities and Markets Authority.

When discharging its general functions of rule-making, preparing and issuing rules under the FSMA, giving general guidance or determining general policy and principles, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of:

- securing an appropriate degree of protection for consumers (the consumer protection objective);
- promoting effective competition in the interests of consumers in financial markets (the competition objective); and
- protecting and enhancing the integrity of the UK financial system (the integrity objective).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes competition.

The FPC, which sits within the Bank of England, is tasked with macro-prudential regulation, or regulation of the stability and resilience of the financial system as a whole. The FPC has power to give directions (and recommendations) to the PRA and the FCA.

1.2 ***The UK Government***

The UK Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, there are a variety of circumstances where the PRA, the FCA and the FPC will need to alert HM Treasury (as the representative of the UK Government) about possible issues, for example, in terms of the PRA, where there may be a need for a support operation or a problem arises which could cause wider economic disruption and, in terms of the FCA, where there has been a significant regulatory failure to secure appropriate consumer protection.

1.3 ***The Financial Ombudsman Service***

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms and certain other businesses in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

2. **UK Regulation**

2.1 ***Overview of the UK financial services regulation***

Financial Services and Markets Act 2000

The cornerstone of the regulatory regime in the UK is the FSMA, which came into force on 1 December 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation.

The FSMA prohibits any firms from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that firm is authorised or exempt under the FSMA (the "**General Prohibition**"). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, managing investments and safeguarding and administering investments). The FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised firm or exempt from such requirements.

The UK regulators are responsible for the authorisation and supervision of institutions that carry out regulated activities in the UK.

Clydesdale Bank is authorised by the PRA with permission to undertake, among other things, deposit-taking, issuing electronic money, mortgage and certain investment activities.

Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA, which were modified to reflect the new regulatory structure under the FSA 2012. Dual-regulated firms, such as Clydesdale Bank, need to meet both the PRA's threshold conditions and the FCA's threshold conditions. The FCA threshold conditions for PRA authorised firms are: effective supervision; appropriate non-financial resources; suitability; and business model. At a high level, the PRA threshold conditions require: (i) that where a firm carries on the regulated activity of accepting deposits or issuing electronic money, the firm must be a body corporate or a partnership; (ii) a firm's head office and in particular its mind and management to be in the UK if it is incorporated in the UK; (iii) a firm's business to be conducted in a prudent manner and in particular that the firm maintains appropriate financial and non-financial resources; (iv) the firm itself to be fit and proper and appropriately staffed; and (v) the firm and its group to be capable of being effectively supervised.

Financial services regulators' handbooks

The FSMA (as amended by the FSA 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of their respective handbooks (the "**FCA Handbook**") and the PRA rulebook (the "**PRA Rulebook**").

Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply with the FCA's Principles for Businesses set out in the FCA Handbook and, if a dual-regulated firm, the PRA's Fundamental Rules set out in the PRA Rulebook. The PRA's Fundamental Rules include requirements on firms to conduct their business with integrity, to act in a prudent manner, to maintain at all times adequate financial resources and to have effective risk strategies and risk management. The FCA's Principles for Businesses include requirements on firms to conduct their business with due skill, care and diligence, to treat customers fairly and to communicate with customers in a manner that is clear, fair and not misleading.

Manuals of the FCA Handbook and the PRA Rulebook which are of particular relevance to Clydesdale Bank, the Capital Requirements Regulation firm section of the PRA Rulebook, the Senior Management Arrangements, Systems and Controls sourcebook, the Supervision sourcebook, the Conduct of Business sourcebook, the Insurance: Conduct of Business sourcebook ("**ICOBS**"), the Client Assets sourcebook ("**CASS Sourcebook**"), the Consumer Credit sourcebook ("**CONC**"), the Banking: Conduct of Business sourcebook ("**BCOB**"), the Mortgages and Home Finance Conduct of Business sourcebook ("**MCOB**"), the Dispute Resolution sourcebook and the Recovery and Resolution rulebook. In addition, individuals carrying out key functions within Clydesdale Bank must be approved by the PRA or the FCA and comply with the standards of conduct set out in the Statement of Principle for Approved Persons in the FCA Handbook.

2.2 ***Supervision and Enforcement***

Supervision

Each of the PRA and the FCA has wide powers, where relevant, to supervise and intervene in the affairs of a firm authorised and regulated under, or pursuant to, the FSMA. These powers were extended under the FSA 2012.

The nature and extent of the PRA's and/or the FCA's supervisory relationship with a firm depends on how much of a risk the PRA and/or the FCA considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that if it does fail, it does so in an orderly manner. The PRA has introduced the 'Proactive Intervention Framework' to support early identification of risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected.

When taking action, the PRA and/or the FCA can, for instance, require firms to provide particular information or documents to it, require the production of a report by a "skilled person" (as defined in the glossary to the FCA Handbook and PRA Rulebook), appointed by either the authorised firm or the PRA and/or the FCA, or formally investigate a firm. Where it will advance its objectives, the PRA and the FCA have a broad power of direction over qualifying unregulated parent undertakings.

Enforcement

The PRA and/or the FCA have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. Most notably, enforcement actions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The PRA and/or the FCA can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months or six months in certain cases, or that fails to meet the threshold conditions.

Challenging the PRA/FCA

Where an authorised firm wants to challenge the decisions of the PRA or FCA, it could make formal representations and also bring a case to the Upper Tribunal (Tax and Chancery Chamber) (for the purposes of this Part 10, the "**Tribunal**"). The amendments made to the FSMA which introduced the PRA and the FCA made a number of amendments to the appeal process, which have broadly reduced the powers of the Tribunal. Although the grounds for making a reference have remained unchanged, the courses of action available to the Tribunal in the event that it disagrees with the PRA have been reduced. Under the previous system, the Tribunal had the power to make its own decision in place of one made by a regulator with which it disagrees. That remains the position for a disciplinary reference or a reference in connection with specific third-party rights, but the Tribunal no longer has the power to substitute its own decision for that of the regulator in a supervisory context.

2.3 ***Controller regime (including shareholders)***

Under section 178 of the FSMA, if a person intends to acquire or increase its "control" of a UK authorised firm (such as Clydesdale Bank), it must first notify the appropriate regulator (in the case of Clydesdale Bank, this is the PRA). The PRA has 60 working days (after consulting with the FCA) to decide whether to approve the acquisition or increase of control beginning on the day on which the PRA acknowledges receipt of the notification. The 60 working day period can be interrupted if the PRA requests further information from the applicant. The PRA will not approve any new controller or any increase of control without being satisfied that the controller is financially sound and suitable to be a controller of, or acquire increased control of, the UK authorised firm. Acquiring control for the purposes of FSMA includes where a person first holds 10 per cent. or more of the shares or voting power in an authorised firm or its parent undertaking or anyone who holds shares or voting power in an authorised firm or its parent undertaking as a result of which they are able to exercise significant influence over the management of the authorised firm. A person will be treated as increasing his or her control over a UK authorised firm, and therefore require further approval from the PRA, if the level of his or her shareholding or entitlement to voting power increases from a holding below certain thresholds to a holding above them. The thresholds are 10 per cent., 20 per cent., 30 per cent. or 50 per cent. of shares or voting power.

When determining a person's level of control, that person's holding of shares or entitlement to voting power will be aggregated with the holdings or entitlements of any person with whom he or she is "acting in concert".

Acquisition or increase of control without PRA (or where appropriate FCA) approval is a criminal offence.

2.4 ***Capital adequacy and Liquidity***

In the UK, the minimum capital and liquidity required to be held by a retail bank are established through discussions between that retail bank and the PRA and are set by the PRA in the form of Individual Capital Guidance ("**ICG**") and Individual Liquidity Guidance ("**ILG**"). The PRA sets a retail bank's ICG and ILG following submission by that bank of an ICAAP and an ILAA process. Typically a bank will hold a capital and liquidity buffer above these minimum requirements. The key metrics used to assess a bank's capital and liquidity requirements are discussed in more detail below.

The existing regulatory framework for capital adequacy and liquidity has witnessed a number of changes in recent years on account of the "Basel III" changes. The Basel Committee in "Basel III" introduced significant changes to the existing capital framework including new capital and liquidity requirements intended to reinforce capital standards, with heightened requirements for global systemically important banks, and to establish minimum liquidity standards for credit institutions. The changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a Leverage Ratio as well as short-term liquidity and longer-term funding measures (LCR and NSFR). Basel III also introduced a credit valuation adjustment measure which aims to quantify the risk that counterparties to derivative transactions may be more or less credit worthy at any given time during the life of a transaction.

Basel III has been implemented in Europe through CRD IV and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (the "**Capital Requirements Regulation**"). CRD IV and the Capital Requirements Regulation came into force in January 2014, but will only be fully implemented by January 2019. CRD IV and national discretions contained in the text of the Capital Requirements Regulation have been transposed into national law in the UK and are set out in the FCA Handbook and the new PRA Rulebook. Institutions are also required to refer directly to the Capital Requirements Regulation text and related technical standards issued by the EBA, reports and guidelines.

Capital

A bank's ability to absorb losses is determined by the amount of capital it holds. Consequently, a bank's total assets and RWAs determine the minimum capital the bank is required to hold. Three types of capital (among others) are defined by the Capital Requirements Regulation:

- Common Equity Tier 1 ("**CET1**") Capital: comprising common equity and retained earnings;
- Additional Tier 1 Capital: comprising deeply subordinated perpetual instruments issued in accordance with the requirements of the Capital Requirements Regulation; and

- Tier 2 Capital: comprising dated or perpetual subordinated instruments issued in accordance with the requirements of the Capital Requirements Regulation as well as: (i) any share premium account generated by the issuance of such instruments; and (ii) certain other risk-weighted exposure amounts.

The principal metrics used to assess capital strength are the CET1 ratio and the Leverage Ratio.

In the UK, the PRA currently requires major banks and building societies to meet a minimum 7 per cent. CET1 ratio and a minimum 3 per cent. Tier 1 Leverage Ratio.

The UK Government intends to introduce a new leverage ratio framework in the UK. In February 2015, HM Treasury published the outcome of its consultation, wherein it sought views on how to implement the FPC's recommendations to grant the FPC powers to give directions to the PRA to set leverage ratio requirements and buffers for PRA-regulated institutions. HM Treasury noted in its outcome to the consultation that it also intended to grant the FPC a power to set supplementary ratio buffers.

Following a direction by the FPC in July 2015, the PRA consulted on the implementation of the new UK leverage ratio framework which is expected to include a 3 per cent. minimum leverage ratio requirement and additional leverage ratio buffers in the form of a countercyclical leverage ratio buffer requirement and an additional leverage ratio buffer for global systemically important institutions. The FPC also directed the PRA to require at least 75 per cent. of the minimum leverage ratio requirement to be met by CET1 capital and to secure that 100 per cent. of leverage ratio buffers be met by CET1 capital. The PRA published its policy statement, final rules and supervisory statements on 7 December 2015. The changes impact banks and building societies with individual or consolidated retail deposits equal to or greater than £50 billion. The new leverage ratio framework came into force on 1 January 2016, with a twelve and twenty four month transitional period applying to certain disclosure and reporting requirements for the leverage ratio.

Liquidity

A bank's ability to manage shocks to the financial system is assessed by the extent to which its assets are covered by funding with equal or longer maturity. The principal metrics to assess bank long term funding are the LDR, NSFR and LCR.

- The LDR is defined as the ratio of total customer loans to deposits. While the PRA does not officially set a maximum limit for this ratio, reducing the LDR has been a key focus of UK retail banks since the financial crisis.
- The NSFR is a key component of Basel III (discussed above) which is due to come into force in 2018. The ratio seeks to calculate the proportion of long-term assets which are funded by long term, stable funding. The Basel III regulations state that a bank's NSFR must be at least 100 per cent.
- The LCR is designed to ensure that financial institutions have the necessary assets available to withstand short-term liquidity disruptions. Banks are required to hold an amount of highly liquid assets equal to or greater than their net cash outflow over a 30-day period. The LCR was introduced in October 2015, but is subject to a phased implementation such that the full 100 per cent. minimum will not be enforced until 1 January 2018.

2.5 ***Key structural and other reforms***

The ICB made various recommendations for retail and SME and deposit ring-fencing requirements for banks, while the Parliamentary Commission on Banking Standards ("**PCBS**") issued its final report in June 2013. Many of these recommendations have been reflected in the Banking Reform Act, which received Royal Assent on 18 December 2013 and will (on its provisions coming into force on a day or days to be appointed in commencement orders) enact a number of reforms primarily related to the UK's banking sector. Reforms introduced by the Banking Reform Act include the following:

Ring-fencing vital banking services

The Banking Reform Act introduces a ring fence around retail deposits held by UK banks with the aim of separating certain core banking services critical to individuals and SMEs from wholesale and investment banking services. The ring-fencing regime is intended to implement the core recommendation of the ICB that UK banks should ring fence their retail and SME deposit-taking businesses in certain financially independent legal entities which are separate and distinct from certain designated trading and banking activities. Secondary legislation setting out the detail of the ring-fencing regime would exempt from ring-fencing those banks whose "core deposits" (as defined in the draft secondary legislation) do not exceed £25 billion as a rolling average over a three-year period. CYBG Group will not be impacted by certain requirements under the ring-fencing regime since relevant CYBG Group companies are currently ring-fenced.

In October 2015, the PRA published a consultation paper on the implementation of ring fencing rules in the UK which covered prudential requirements, intra-group arrangements and the use of financial market infrastructures. The PRA proposes rules requiring a ring-fenced bank and entities in its ring-fenced sub-group not to make distributions to group entities that are not in the ring-fenced sub-group unless reasonable notice has been given to the PRA of the intention to make the distribution. The proposed rules would enable the PRA to monitor intended distributions from a ring-fenced bank or entity in its ring-fenced sub-group, evaluate the impact of these payments on the ring-fenced bank's ability to continue to meet regulatory capital requirements on an individual and sub-consolidated basis and, as appropriate, prevent such distributions by imposing a requirement that adequate capital resources are maintained. However, provided these regulatory requirements are satisfied, the PRA does not intend to require changes to a ring-fenced bank's dividend policy, or that of its ring-fenced bank sub-group. The UK Government intends to implement the ring-fencing regime from 1 January 2019.

Additional primary loss-absorbing capacity requirements

The Banking Reform Act introduces mechanisms that will require systemically important UK banks and building societies (including ring fenced banks and UK-headquartered global systemically important banks) to hold loss-absorbing capacity in addition to capital held to satisfy their capital requirements. Draft secondary legislation setting out the detail of the primary loss-absorbing capacity ("**PLAC**") requirements would require the minimum PLAC requirements for UK-headquartered global systemically important banks to be calibrated on a sliding scale from 13.1 per cent. of RWAs to 17 per cent. of RWAs depending on the "bucket" of systemic importance to which they are assigned. Lower PLAC requirements could be imposed for entities that are not UK-headquartered global systemically important banks. These reforms are intended to implement recommendations of the ICB relating to PLAC requirements and the resolution buffer.

The UK Government also intends to use the PLAC requirements to implement the BRRD for firms to maintain a minimum amount of "eligible liabilities" (that is, liabilities that may be bailed in using the BRRD bail-in tool). The UK Government has deferred the implementation of this requirement under the BRRD until 1 January 2016.

Depositor preference

In response to ICB recommendations, the Banking Reform Act amended the Insolvency Act 1986 and related Scottish legislation to provide that deposits eligible for protection under the FSCS are preferential debts, ranking ahead of unsecured creditors and floating charge holders. The relevant provisions of the Banking Reform Act came into force on 31 December 2014.

Senior persons regime, licensing regime and banking standards rules

The Banking Reform Act (not yet all in force) introduces a new accountability framework for individuals within banking which will replace the existing approved persons regime. The FCA and PRA consulted on and have published their final rules in relation to the new framework, which is due to commence in March 2016 with relevant firms expected to submit transitional documentation by February 2016. The new framework consists broadly of the following three elements:

Senior Managers Regime: The senior managers' regime (the "**Senior Managers Regime**") will apply to the top layer of executive management, directors and non-executive directors in Clydesdale Bank who will be subject to regulatory approval. The exception to this is standard non-executive directors (who do not act as chairman, senior independent director or chair any committees) who will fall out of the scope of the Senior Managers Regime and will not be subject to regulatory approval.

Banks will be required to assess these individuals as fit and proper and a notification of their appointment will be submitted to the regulator. Clydesdale Bank will be required to allocate a range of responsibilities (known as senior management functions) to these individuals and to assess their fitness and propriety on a regular basis. When applying for regulatory pre-approval for these individuals, Clydesdale Bank will have to include a statement of responsibilities setting out the areas that the prospective senior manager will be responsible for managing.

Clydesdale Bank will also be required to prepare, maintain and update a management responsibilities map, which is a single document that will describe Clydesdale Bank's management and governance arrangements. Senior Managers will also be subject to an increased criminal sanction of up to 7 years in prison or an unlimited fine where they make a decision which leads to the bank failing. Clydesdale Bank is required to identify and notify the regulators by 8 February 2016 of the approved persons who are to be senior managers. The Senior Managers Regime will come into force on 7 March 2016.

Certification Regime: The certification regime will require Clydesdale Bank to assess (and re-assess annually) the fitness and propriety of certain employees in positions where the decisions they make could pose a risk of significant harm to Clydesdale Bank or any of its customers (known as significant harm functions). These individuals will be the next tier down from Senior Managers and will not be subject to regulatory approval. Clydesdale Bank is required to identify its population of certified employees by 7 March 2016 and issue certificates for the concerned individuals by 7 March 2017.

Conduct Rules: The new conduct rules take the form of high-level principles, setting out the standards of behaviour for employees. These rules will replace the existing statements of principle and code of practice for approved persons. There are two tiers of conduct rules: five rules that will apply to all individuals in Clydesdale Bank (except ancillary employees) and four further senior manager conduct rules which will also apply to those that fall within the Senior Manager Regime. Clydesdale Bank will be required to train and make employees aware of the conduct rules, and notify the regulators when they suspect or know there has been a breach of the conduct rules. Individuals subject to either the Senior Managers Regime or the Certification Regime will be subject to the conduct rules from 7 March 2016, while such rules will apply to staff who are not subject to the Senior Managers Regime or the Certification Regime from March 2017.

Criminal sanctions for managerial misconduct

The Banking Reform Act introduces a new criminal offence of reckless misconduct in the management of a bank, as recommended by the PCBS in its final report. The scope of this offence will be limited to individuals covered by the senior persons regime. The maximum sentence for the new offence will be seven years in prison and/or an unlimited fine. These provisions will come into force on 7 March 2016.

Regulators' powers over holding companies

Under the FSMA, the FCA and the PRA have the power to impose requirements on UK parent undertakings (qualifying parent undertakings) of certain regulated firms. The Banking Reform Act amends the FSMA to introduce new powers allowing the PRA or the FCA, as appropriate, to impose rules on qualifying parent undertakings for the purposes of requiring arrangements that would allow or facilitate the exercise of resolution powers in respect of the qualifying parent undertaking or any subsidiary undertaking and allowing the appropriate regulator to make rules applying to UK-incorporated parent companies of ring-fenced banks to support the objectives of ring-fencing. The Company could be subject to PRA or FCA requirements as the parent undertaking of Clydesdale Bank.

New Payment Systems Regulator

In response to the PCBS' recommendation, the Banking Reform Act introduced a new regulator for UK payment systems, the PSR. The PSR operates under the FCA but with separate duties and powers and is tasked with the objectives of promoting effective competition in the market for payment systems, promoting the innovation in and development of payment systems and ensuring that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, its services.

In addition to early focus on the creation of a new payments strategy forum with wide industry and consumer representation, the PSR has launched two market reviews, one looking into the supply of indirect access to payment systems and the other looking at ownership and competitiveness of infrastructure provision. Each review is anticipated to take 12 months with a further six months for the PSR to assess any proposed remedies.

European regulatory landscape

In January 2014 the European Commission published a proposal on structural measures to improve the resilience of credit institutions. The proposal builds on the recommendations published in October 2012 by a High Level Expert Group established by the European Commission and chaired by the Governor of the Bank of Finland, Mr Erkki Liikanen. The proposed regulation intends to introduce a ban on proprietary trading for EU credit institutions which are global systemically important institutions or above a specific financial threshold. Regulators would also be granted powers to require credit institutions to separate certain trading activities.

2.6 ***Recovery and resolution***

The Banking Act established a special resolution regime for UK banks and building societies which provides the PRA, the Bank of England and HM Treasury with tools for dealing with failing institutions. These tools consist of three stabilisation options, which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions and which cannot be assisted through normal regulatory action or market-based solutions. The Banking Act also makes provision for special insolvency processes which authorities can utilise to deal with failing banks.

The Banking Reform Act amends the Banking Act 2009 to introduce a bail-in tool. The amendments establish the bail-in option as a new stabilisation option available to the Bank of England as lead resolution authority under the special resolution regime.

European regulatory developments

The BRRD, which was adopted in June 2014, established an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Member States were required to have put in place national legislation implementing the provisions of the BRRD by 1 January 2015, except for certain bail-in provisions which Member States can implement by 1 January 2016. The European Banking Authority consulted on a wide range of guidelines and technical standards most of which have been submitted to the European Commission. The provisions of the BRRD (including those relating to bail-in) have been implemented in the UK.

2.7 ***Consumer credit regulation***

With effect from 1 April 2014, reforms have brought the UK consumer credit regime under the umbrella of the FSMA and transferred the responsibility for the oversight and regulation of consumer credit from the OFT to the FCA. The regulatory framework comprises the FSMA and its secondary legislation, retained provisions in the CCA and rules and guidance in the FCA Handbook, including the CONC (for the purposes of this section, collectively the "**Consumer Credit Regime**").

Under the Consumer Credit Regime, the definition of "regulated activities" is extended to consumer credit activities including entering into a "regulated credit agreement" as lender. A regulated credit agreement is any "credit agreement" that is not an "exempt agreement". A credit agreement is any agreement between an individual or relevant recipient of credit ("**A**") and any other person ("**B**"), under which B provides A with "credit" of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include those predominantly for the purposes of a business, those secured on land or otherwise by mortgage and those where a local authority or other specified type of organisation is the lender. Other consumer credit activities which are now regulated include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner or lender, operating an electronic system in relation to lending and providing credit information services and credit references.

Consumer credit activities are subject to the General Prohibition and the FSMA authorisation regime discussed earlier in this Part 10.

Key features of the UK consumer credit regime include:

- *Authorisation*: to become authorised by the FCA, firms must meet threshold conditions, report information which is subject to scrutiny by the FCA and obtain pre-approval for those in key roles in the applicant firm;
- *Supervision*: under the Consumer Credit Regime there is close supervision of firms engaged in higher risk consumer credit activities and a less intensive supervision regime for lower risk firms. Firms are subject to regular reporting requirements in relation to their consumer credit activities and the FCA will engage in thematic work in response to systemic issues;
- *Rules*: the CCA statutory regulations and OFT guidance have been replaced by FCA general standards, rules (breaches of which can be penalised), guidance and retained consumer protections in the CCA. The guidance set out in the FCA Handbook rules has the force of law. The stringent FSMA financial promotions regime also applies. The FCA has also imposed financial promotion rules for high cost short term credit, cold calling and debt management companies. The financial promotions regime does not apply to second charge loans by firms that also carry on first charge residential lending, the financial promotion requirements in relation to these firms remain similar to previous requirements until they are transferred to the longer-term mortgage regime referred to in paragraph 2.8 below;
- *Enforcement*: the FCA has greater powers of enforcement than the OFT and those include bringing criminal, civil and disciplinary proceedings, power to withdraw authorisations, ban firms from financial services, suspend firms or individuals for 12 months and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market which can include restrictions on product features and selling practices or product bans; and
- *Complaints and redress*: consumers continue to have access to the FOS. The FCA also has the power to require firms to reimburse consumers who have suffered loss due to a firm's actions.

European regulatory landscape

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which **provided that**, subject to exemptions (including loan agreements secured by land mortgage), loans not exceeding €75,000 must be regulated. This directive repealed and replaced the first consumer credit directive and was implemented in the UK through changes to the Consumer Credit Regime.

2.8 *Residential mortgage lending*

The FSMA regulates lending in relation to residential property which falls within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A residential mortgage is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or to trustees; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The MCOB sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as Clydesdale Bank) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Following FSA's wide ranging consultation on mortgage lending, the FSA's MMR, the FSA published final rules on 25 October 2012 which amended the existing conduct rules for mortgage lending. The new rules came into effect on 26 April 2014.

Principal changes centre upon responsible lending and include:

- more thorough verification of borrowers' income (no self-certification of income, mandatory third-party evidence of income required);
- assessment of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;
- application of interest rate stress tests – lenders must consider likely interest rate movements over a minimum period of five years from the start of the mortgage term; and
- when making underwriting assessments, lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process and lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met.

There are also significant changes to mortgage distribution and advice requirements in sales, arrears management and requirements on contract variations such as when additional borrowing is requested.

European regulatory landscape

The Directive on credit agreements relating to residential property, also commonly known as the MCD, came into effect on 20 March 2014. The MCD was to some extent modelled on the second directive on consumer credit and requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. The MCD regulates both first and second charge mortgage lending.

Member States are required to implement the MCD into national law by March 2016.

The Financial Services and Markets (Mortgage Credit Directive) Order 2015, which implements the MCD in the UK, was published in March 2015, with the provisions coming into force in stages between April 2015 and March 2016. Firms may elect to comply with the new rules from September 2015. HM Treasury has also amended the definition of regulated activities under the RAO, so that second charge mortgages which are currently regulated under the Consumer Credit Regime will move into the regulatory regime for residential mortgages from March 2016.

2.9 ***Payment Services Directive and Multilateral Interchange Fee Regulation***

Directive 2007/64/EC on payment services in the internal market harmonises the regulatory regime across the European Union for payment services (the "**PSD**"). The PSD was implemented in the UK through the Payment Services Regulations 2009 and related amending legislation. The regulations create a separate authorisation and registration regime which differs from the authorisation requirements under the FSMA, for businesses which provide payment services (including credit card services) in the UK. Credit institutions are only subject to the conduct of business requirements in the regulations to the extent that they provide payment services.

On 23 December 2015, the recast payment services directive (Directive 2015/2366), PSD2, was published in the Official Journal. PSD2 repeals PSD and entered into force on 12 January 2016. It extends the scope of entities covered by the regulation and introduces new rules to improve the transparency and security of payment services. Member states are required to transpose the provisions into national law by January 2018.

The European Commission also adopted a proposal on multilateral interchange fees, the MIF Regulation, which aims to introduce a cap on bank interchange fees charged on consumer credit and debit card transactions. The MIF Regulation lays down business rules and other technical requirements that apply to all types of card-based payment transactions. The MIF Regulation was published in the Official Journal on 19 May 2015 and most of the provisions came into force on 8 June 2015. Rules capping interchange fees for consumer debit and credit card transactions came into force on 9 December 2015.

On 19 December 2014, the EBA published its final guidelines on the security of internet payments. The guidelines set minimum security requirements that EU payment service providers are expected to implement in respect of internet payments. All EU competent authorities are expected to comply with the guidelines by incorporating them into their supervisory practices. The FCA has stated that it intends to incorporate the detail of the EBA guidelines into its supervisory framework in line with the timetable for the transposition of PSD2.

Other significant payment services legislation include regulation (EU) 260/2012 establishing technical and business requirements for credit transfers and direct debits in Euro (the "**SEPA Migration Regulation**") and Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**").

The SEPA Migration Regulation sought to create an integrated market for electronic payments in Euro, by replacing existing national payment schemes in Euro with pan-European SEPA payment schemes. The new SEPA payment schemes were implemented for Eurozone countries by 2014. The deadline for implementation of these schemes by non-Eurozone countries (including the UK) is 31 October 2016.

The Payment Accounts Directive introduced measures that banks and other payment service providers must comply with including in relation to provision of standard fee information in relation to payment accounts to consumers, facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. The Payment Accounts Directive came into force in September 2014, with Member States being required to transpose its provisions into national law by September 2016.

2.10 ***Financial Services Compensation Scheme and the EU Deposit Guarantee Scheme Directive***

Financial Services Compensation Scheme

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits): (i) for deposits, 100 per cent. of the first £85,000 (this limit was reduced on 3 July 2015 to £75,000, with the new limit taking effect for existing depositors on 1 January 2016); (ii) for investment business (including mortgage advice and arranging) 100 per cent. of the first £50,000; and (iii) for insurance firms declared to be in default after 3 July 2015, 90 per cent. of the claim with no upper limit (except that claims that arise in respect of a liability subject to compulsory insurance or to professional indemnity insurance is protected in full; no protection is available for goods in transit, marine, aviation and credit insurance and contracts of reinsurance). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim.

EU Deposit Guarantee Scheme Directive

Directive 94/19/EC on deposit guarantee schemes as amended by DGSD, requires Member States to adopt at least one deposit guarantee scheme for the protection of deposits. The UK deposit guarantee scheme is the FSCS. The DGSD sets the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

The DGSD has been recast and will be replaced by a new Directive 2014/49/EU on deposit guarantee schemes (the "**Recast DGSD**") which was published in the Official Journal in June 2014. DGSD introduces requirements on banks to contribute to their national deposit guarantee scheme at least annually and to have reached a minimum target pre-funded level of 0.8 per cent. of deposits covered by the DGSD by 3 July 2024. The Recast DGSD must be implemented by Member States into national law by 3 July 2015.

In March 2015, the Deposit Guarantee Scheme Regulations were published to implement the Recast DGSD in the UK. In April 2015, the PRA issued its final rules for implementing Recast DGSD requirements. The majority of the new rules came into force on 3 July 2015 with the exception to this being some core system and information requirements which are due to be implemented by 1 December 2016. Key changes required for July 2015 include enhancements in eligibility for deposit protection, protection for temporary high balances and more prescriptive disclosure requirements.

2.11 ***Competition regulation***

CYBG Group companies are subject to supervision and oversight by a number of competition regulators, including the CMA, sectoral regulators and the European Commission. The Banking Reform Act gives the FCA and the PSR concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively.

The Banking Reform Act gives the PRA a new statutory objective relating to competition, through amendments to the FSMA. This implements the PCBS' recommendation, set out in its final report, that the PRA should be given a secondary competition objective. These changes came into force on 1 March 2014.

The FCA and the CMA conducted a joint market study on banking services for SMEs and published their findings in July 2014. Based on the findings from the review the CMA announced its decision in November 2014 to launch an in-depth market investigation into the personal current account and SME retail banking sectors after having concerns about the effectiveness of competition in these sectors. The CMA published its provisional findings and possible remedies on 22 October 2015 and is expected to publish its final report in April 2016. The FCA also launched its review of the Current Account Switch Service and account number portability in September 2014 and published the results of its review in March 2015. The FCA has also conducted market studies and made recommendations in relation to general insurance add-ons, retirement income and cash savings plans and launched market studies on the credit card market in November 2014 and into competition in investment and corporate banking services (following its review into competition in the wholesale sector) in February 2015 and into competition in the mortgage market in October 2015. While the outcome of ongoing studies, and the scope of any future studies, is inherently uncertain, they may ultimately result in the application of behavioural and/or structural remedies by the regulator.

The FCA published research reports on overdraft charges in June 2014. The FCA raised concerns that overdraft providers have incentives to raise revenue by increasing overdraft limits and have historically imposed very high, complex and opaque charges for unauthorised overdrafts. There are existing voluntary measures in place designed to help reduce overdraft costs (as agreed between the UK Government, the OFT and industry members). However, the FCA announced its intention to investigate (together with the CMA) how providers set and monitor overdraft limits and their governance and strategies for doing so, and indicated that it would also consider making some of the existing voluntary measures mandatory.

2.12 *Other relevant legislation and regulation*

Money Laundering Regulations

The UK Money Laundering Regulations 2007 place a requirement on authorised firms to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud.

Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. Directive 2005/60/EC, which underpins the Money Laundering Regulations 2007, was reviewed by the European Commission between 2010 and 2012 and it found that there were no fundamental shortcomings in the regime.

In response to the European Commission's review, broad support was expressed for the proposed alignment to the revised Financial Action Task Force standards and for greater clarification of certain issues, in particular in the area of data protection and cross-border transactions. In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing and a regulation on information accompanying transfer of funds to secure due traceability of these transfers. The new money laundering directive and regulation on information accompanying transfer of funds was published in the Official Journal on 5 June 2015 and came into force on 25 June 2015. Member States will have until 26 June 2017 to transpose and comply with the new directive. The new regulation will become directly applicable from 26 June 2017.

Data Protection

The UK Information Commissioner's Office is responsible for overseeing implementation of the Data Protection Act 1998 which regulates, among other things, the retention and use of data relating to individual customers and such individual's access to the data.

Unfair Terms in Consumer Contracts Regulations

Prior to the entering into force of the Consumer Rights Act, 2015, the UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer

Contracts Regulations 1994) (the "**UTCCR**") applied to consumer contracts entered into on or after 1 July 1995. The main effect of these regulations is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services. The FCA has issued statements of good practice in this regard in May 2005, January 2007 and January 2012.

Consumer Rights Directive implementing legislation

The Directive on Consumer Rights (2011/83/EC) ("**EU Consumer Rights Directive**") has been implemented in the UK through the Payment Surcharges Regulation 2012 (which prohibits traders from imposing excessive charges on customers in relation to the use of a means of payment), the Consumer Contracts Regulation, 2013 (which prescribed requirements in relation to information to be provided to consumers, interest charges and additional payments) and the Consumer Rights Act, which received Royal Assent in March 2015 with the majority of provisions taking effect in October 2015. The Consumer Rights Act replaces the UTCCR with a consolidated regime in respect of unfair contract terms which will also extend to individually negotiated contracts and to consumer notices, for contracts entered into on or after 1 October 2015. Contracts entered into before that date will continue to be subject to the UTCCR. The Consumer Rights Act also contains clarificatory provisions in relation to consumer rights in respect of goods, services and digital content and provisions which are intended to provide easier access to customers to compensation arising from breaches of consumer or competition law.

Banking Conduct Regime

On 1 November 2009, the FSA introduced its "Banking Conduct Regime" for retail banking conduct of business. The Banking Conduct Regime includes the full application of the FCA's Principles for Businesses, the conduct of business requirements contained in the Payment Services Regulations and BCOB.

The Lending Code

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched "The Lending Code", a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board. The voluntary Banking Code and the "Business Banking Code" then ceased to have effect. The Lending Code has been revised from time to time with the latest revision being made in October 2014. A further review of the Code is currently underway.

Bank levy

From 1 January 2011 banks have been required to pay the so-called "bank levy", in addition to the fees that they pay to the PRA and FCA. The bank levy aims to ensure that banks contribute at a level that reflects the risk that bank failure poses to the UK economy and aims to encourage banks to reduce riskier funding. Banks are required to contribute based on their equity and liabilities (subject to some exceptions) or that of their group for a given chargeable period. In its March 2014 consultation paper on adopting a 'banding approach' to bank levies, HM Treasury noted that it intends to use the bank levy to fund ex ante funding requirements under the DGSD and BRRD.

The Finance (No. 2) Act introduced a phased reduction of the bank levy from 0.18 per cent. from 1 January 2016 to 0.10 per cent. from 1 January 2021 (in conjunction with the introduction of the banking surcharge from 1 January 2016 on bank profits to the extent they exceed £25 million annually). The July 2015 UK budget also proposed a change in the scope of the bank levy from January 2021 so that UK headquartered banks will be subject to the bank levy based on their UK liabilities.

The Pensions Regulator

The Pensions Regulator is responsible for the supervision of work-based pension schemes including the DB Scheme. The Pensions Regulator has wide ranging statutory powers in relation to the funding of such schemes, including the power to intervene in valuation and funding processes. It also has the ability in some circumstances to require employers and certain associates of employers to put lump sums into or otherwise provide additional financial support to the scheme. The Pensions Regulator has a role to play in some corporate transactions and can support the trustees in making demands of the employer if there are concerns regarding the deterioration of the employer covenant.

The Pension Regulator's objectives are set out in the Pensions Act 2004 and include promoting and improving understanding of the good administration of work-based pensions.

The objectives set out in the Pensions Act 2004 are to protect the benefits of members of occupational pension schemes, to protect the benefits of members of personal pension schemes (where there is a direct payment arrangement), to promote, and to improve understanding of the good administration of work-based pension schemes, to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund, to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008 and to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).

MiFID II

On 15 May 2014, the European Parliament and European Council adopted a directive (Directive 2014/65/EU) and associated regulation (Regulation 600/2014) on markets in financial instruments (together "**MiFID II**"), which will repeal and recast the existing Directive 2004/39/EC on markets in financial instruments. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures (including the application of regulatory requirements to a new category of multilateral, discretionary trading venues for non-equities, the Organised Trading Facility), increase transparency and transaction reporting requirements, enhance existing conduct of business requirements and supervisory enforcement powers, increase regulation of commodities business and introduce new rules for third country firms accessing EU markets. The new requirements introduce a number of changes to the banking sector's market infrastructure and conduct rules (including enhanced suitability requirements) and introduces new investor protection measures including product governance requirements.

MiFID II entered into force on July 2014, however the majority of the provisions will only apply from January 2017. There is a possibility (following European Commission statements in November 2015) that applications could be further delayed to 2018. Final regulatory and implementing technical standards and guidelines regarding the implementation of various provisions are expected to be published by ESMA and the European Commission during the course of 2016. Member states are also expected to transpose national implementation measures by July 2016.

EMIR

The European market infrastructure regulation (Regulation 648/2012) ("**EMIR**"), was adopted by the European Parliament and European Council on 4 July 2012. EMIR provides for certain OTC derivatives contracts to be submitted to central clearing and imposes, *inter alia*, margin posting and other risk mitigation techniques, reporting and record keeping requirements. CYBG Group is subject to reporting obligations which are already in force. The clearing and margin requirements are being phased in and CYBG Group will be subject to these requirements in relation to those classes of derivatives that are declared to be subject to the clearing obligation (with the first clearing obligation in respect of certain interest rate swaps expected to come into force in April 2016).

Fair and Effective Markets Review

In June 2014, the Chancellor of the Exchequer announced FEMR, a joint review by the Bank of England, HM Treasury and the FCA into the way wholesale financial markets function. The aim of the FEMR was to identify ways to reinforce confidence in the fairness and effectiveness of wholesale financial market activity conducted in the UK and to influence the international debate on trading practices. The review ran for 12 months. The three main purposes of the FEMR report were to analyse the root causes of recent misconduct and other sources of perceived unfairness in the wholesale sector, to evaluate the impact of existing reform measures to address these causes and to make recommendations to plug any gaps. FEMR's final report was published on 10 June 2015 and sets out 21 key recommendations consisting of a mix of near-term actions to improve conduct in wholesale markets and principles to guide a more forward-looking approach to these markets. The recommendations made include extending UK criminal sanctions for market abuse for individuals and firms to a wider range of wholesale market instruments, lengthening the maximum sentence for criminal market abuse from seven to 10 years' imprisonment and mandating detailed regulatory references to help firms prevent the 'recycling' of individuals with poor conduct records between firms. The review's chairs are expected to provide a full update on the implementation of the recommendations to the Chancellor of the Exchequer and the Governor of the Bank of England by June 2016.

Small and Medium Sized Business (Finance Platforms) Regulations

In February 2015, Department for Business, Innovation & Skills published a draft version of the draft Small and Medium Sized Business (Finance Platforms) Regulations which HM Treasury intends to make under sections 5 and 6 of the Small Business, Enterprise and Employment Act 2015 and which is expected to come into force on 1 January 2016. The regulations, which are intended to assist small and medium sized businesses who are unsuccessful in obtaining financing from credit institutions to seek funding from alternate lenders, will require credit institutions above a certain market threshold to provide specified information about unsuccessful finance applications of such businesses to designated online finance platforms which can be accessed by alternative lenders who meet certain conditions. In its August 2014 statement, the UK Government indicated that it intends to designate Clydesdale Bank as one of the credit institutions which will be required to provide credit information under these regulations.

Foreign Account Tax Compliance Act

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain U.S. source payments made by, and financial accounts held with, entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the United Kingdom.

The FATCA provisions impose substantial burdens on UK businesses in identifying US taxpayers, and registering and reporting information. Further, significant aspects of how FATCA will apply in the future remain unclear and, as a result, the scope of compliance may change.

PART 11
TAXATION

1. **United Kingdom Taxation**

1.1 ***General***

The following is a summary of certain UK tax considerations relating to an investment in the Shares.

The statements set out below are based on current UK law as applied in England and Wales and published HMRC practice (which may not be binding on HMRC), all as at the date of this Prospectus, and which may be subject to change, possibly with retroactive effect. They are intended as a general guide and apply only to shareholders of the Company resident and, in the case of an individual, domiciled in the UK for UK tax purposes and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-UK residents), who hold Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owners of such Shares and any dividends paid on them. (In particular, shareholders holding their Shares via a depositary receipt system or clearance service should note that they may not always be regarded as the absolute beneficial owners thereof.) The discussion does not address all possible tax consequences relating to an investment in the Shares and in particular does not cover any possibility of holding the Shares in an individual savings account wrapper. The statements are not addressed to: (i) special classes of shareholders such as, for example, dealers in securities, broker-dealers, intermediaries, insurance companies and collective investment schemes; (ii) shareholders who hold Shares as part of hedging transactions; (iii) shareholders who have (or are deemed to have) acquired their Shares by virtue of an office or employment; (iv) shareholders subject to specific tax regimes or benefitting from certain reliefs or exceptions; and (v) shareholders who hold Shares in connection with a trade, profession or vocation carried on in the UK through a branch or agency (or, in the case of a corporate shareholder, in connection with a trade in the UK carried on through a permanent establishment or otherwise).

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers immediately.

1.2 ***Dividends***

The Company will not be required to withhold amounts on account of UK tax at source when paying a dividend.

1.2.1 *Individuals*

As at the date of this Prospectus, UK resident individual shareholders who receive a dividend from the Company will generally be entitled to a tax credit, which can be set off against the individual's total income tax liability on the dividend payment. The rate of tax credit on dividends paid by the Company will be 10 per cent. of the total of the dividend payment and the tax credit (the "**Gross Dividend**"), or one-ninth of the cash dividend received. UK resident individual shareholders will generally be taxable on the Gross Dividend, which will be regarded as the top slice of the shareholder's income. UK resident individual shareholders who are not liable to income tax in respect of the Gross Dividend will not be entitled to the tax credit attaching to dividends paid by the Company (and accordingly will not be entitled to claim repayment of the tax credit).

In the case of a UK resident individual shareholder who is liable to income tax only at the basic rate (taking account of the Gross Dividend he or she receives), the tax credit will satisfy in full such shareholder's liability to income tax.

To the extent that a UK resident individual shareholder's income (including the Gross Dividend) exceeds the threshold for higher rate income tax but does not exceed the threshold for additional rate income tax, such shareholder will be subject to income tax on the Gross Dividend at 32.5 per cent. but will be able to set the tax credit off against this liability. An individual shareholder who is liable to income tax on the dividend wholly at the higher rate will therefore be liable to income tax equal to 22.5 per cent. of the Gross Dividend (or 25 per cent. of the cash dividend received).

To the extent that a UK resident individual shareholder's income (including the Gross Dividend) exceeds the threshold for additional rate income tax, such shareholder will be subject to income tax on the Gross Dividend at 37.5 per cent. but will be able to set the tax credit off against this liability. An individual shareholder who is liable to income tax on the dividend wholly at the additional rate will therefore be liable to income tax equal to 27.5 per cent. of the Gross Dividend (or approximately 30.6 per cent. of the cash dividend received).

On 9 December 2015 the UK Government published draft legislation to replace the dividend tax credit described above with an annual tax-free dividend allowance of £5,000 and amend the rates of tax on dividend income with effect from 6 April 2016. Dividend income in excess of the dividend allowance will be taxed at 7.5 per cent. for an individual UK resident shareholder who is subject to income tax at the basic rate, 32.5 per cent. for an individual UK resident shareholder who is subject to income tax at the higher rate and 38.1 per cent. for an individual UK resident shareholder who is subject to income tax at the additional rate.

1.2.2 *UK resident corporate shareholders*

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each shareholder's position will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Company would fall within an exempt class. Such shareholders will not be able to claim repayment of tax credits attaching to dividends. Where a dividend does not qualify for exemption, the tax credit attaching to the dividend payment is not available for set off against the shareholder's corporation tax liability. Shareholders within the charge to corporation tax should consult their own professional advisers.

1.2.3 *Non-UK Residents*

Non-UK resident shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under applicable local law. Shareholders who are not resident for tax purposes in the UK should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

1.2.4 *Pension Funds and other exempt persons*

UK resident shareholders who are not liable to income tax, including pension funds, charities and individuals holding Shares through an individual savings account, are not entitled to reclaim the tax credits on dividends paid by the Company.

1.3 ***Chargeable Gains***

A disposal or deemed disposal of Shares by a shareholder who is resident in the UK for tax purposes in the tax year (or part thereof) in question may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains. This will depend upon the shareholder's circumstances and is subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation for corporate shareholders).

Shareholders who are not resident in the UK will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Shares unless they are carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a corporate shareholder, carrying on a trade in the UK through a permanent establishment) in connection with which the Shares are used, held or acquired.

An individual shareholder who acquires Shares while UK resident, ceases to be resident for tax purposes in the UK for a period of five years or less and disposes of all or part of his Shares during that period may, depending on the circumstances, be liable to capital gains tax on his return to the UK, subject to any available exemptions or reliefs.

If an individual shareholder who is subject to income tax at the higher or additional rate becomes liable to UK capital gains tax on the disposal of Shares, the applicable rate will be 28 per cent. Other individual shareholders may only be liable to any such capital gains tax at a rate of 18 per cent.

1.4 *UK Inheritance*

Shares registered on the Company's main register will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. Generally, UK inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Special rules also apply to close companies and to trustees of settlements who hold Shares, which may bring them within the charge to UK inheritance tax.

Under HMRC practice, Shares which are registered only on the Australian branch register and CDIs issued in respect of those Shares which in either case are held by a non-UK domiciled (and not deemed domiciled) individual will be regarded as excluded property for UK inheritance tax purposes. This means that UK inheritance tax should not be chargeable on the death of, or a gift by, a non-UK domiciled (and not deemed domiciled) individual shareholder of such Shares or CDIs.

Holders of Shares or CDIs should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Shares or CDIs through a trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to UK inheritance tax and an equivalent tax in another country or if they are in any doubts about their UK inheritance tax position.

1.5 *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

The statements in this section are intended as a general guide to the current UK stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

Shares registered on the main share register

No liability to stamp duty or SDRT will arise on the issue of Shares by the Company, or on the issue of definitive Share certificates in respect thereof, other than in circumstances involving depositary receipts or clearance services referred to below.

The transfer on sale of Shares held in certificated form will generally be subject to stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration for the Shares (rounded up if necessary to the nearest multiple of £5). Stamp duty is normally paid by the purchaser of the Shares.

An unconditional agreement to transfer Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration for the Shares. However, where within six years of the date of the agreement an instrument of transfer is executed and duly stamped (or otherwise exempt and does not require stamping), the SDRT liability will be cancelled and any SDRT which has been paid may be reclaimed. SDRT is normally the liability of the purchaser of the Shares.

Paperless transfers of Shares within CREST are generally subject to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of Shares into CREST will generally not be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration, in which case SDRT at the rate of 0.5 per cent. of the amount or value of the consideration will normally arise.

Special rules apply to agreements made by market intermediaries in the ordinary course of their business.

Where Shares are transferred (in the case of stamp duty) or issued or transferred (in the case of SDRT) (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or

(b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at a rate of 1.5 per cent. (rounded up if necessary, in the case of stamp duty, to the nearest multiple of £5) of the amount or value of the consideration payable or, in certain circumstances, the value of the Shares.

Any liability for stamp duty or SDRT which does arise will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will in practice generally be reimbursed by participants in the clearance service or depositary receipt scheme.

Transactions within a clearance service and transfers and agreements to transfer depository receipts are not normally subject to stamp duty or SDRT. Clearance service providers may opt under certain circumstances for the normal rates of SDRT (0.5 per cent. of the consideration paid) to apply to transfers of Shares into and to transactions within the service instead of the higher rate applying to an issue or transfer of Shares into the clearance service, in which case a liability to SDRT would arise (at the rate of 0.5 per cent. of the consideration paid) on any subsequent transfers of Shares whilst in the service.

Following litigation, HMRC has confirmed that it will no longer seek to apply the 1.5 per cent. stamp duty or SDRT charge on the issue of Shares into a clearance service or depositary receipt system on the basis that the charge is not compatible with EU law. HMRC's view is that the 1.5 per cent. charge will however apply on the transfer of Shares into a clearance service or depositary receipts system where the transfer is not an integral part of the raising of Share capital. This view is currently being challenged in further litigation. Accordingly, it may be appropriate to seek specific professional advice before incurring the 1.5 per cent. stamp duty or SDRT charge.

Shares registered on the Australian branch register

It is anticipated that the holder of legal title to the Shares in respect of which the CDIs are issued, the Authorised Nominee, will be registered on an Australian branch share register of the Company established in accordance with the Companies Act. The Company understands that an election has been made by CHESS under section 97A of the Finance Act 1986 and accepted by HMRC with the result that neither UK stamp duty nor SDRT will be imposed on the transfer of Shares to the Authorised Nominee. Neither UK stamp duty nor SDRT at the higher rate of 1.5 per cent. will be imposed on the issue of the CDIs by the Authorised Nominee. Confirmation has been obtained from HMRC indicating that neither UK stamp duty nor SDRT will be imposed on subsequent transfers of the CDIs while the underlying Shares are registered on the Australian branch register.

UK SDRT should not be chargeable on an agreement to transfer Shares registered on the Australian branch register, provided the transfer of those Shares is executed outside the UK. UK stamp duty will not be payable on a transfer of Shares registered on the Australian branch register, provided the transfer is executed outside the UK.

Transferring the Shares between the principal share register and the Australian branch register

No stamp duty or SDRT will arise when transferring the Shares between the main share register and the Australian branch register **provided that** (i) there is no change in beneficial ownership of the Shares and (ii) in the case of stamp duty only, the transfer is not a conveyance in contemplation of a sale of the Shares.

2. Taxation of US Resident Shareholders

2.1 *Certain US Federal Income Tax Considerations*

The following summary is a general discussion of certain US federal income tax considerations to US Holders (as defined below) of acquiring, holding and disposing of Shares acquired in the Global Offer. The following summary applies only to US Holders that purchase Shares in the Global Offer and will hold Shares as capital assets for US federal income tax purposes (generally, assets held for investment). The discussion also does not address any aspect of US federal taxation other than US federal income taxation (such as the estate and gift tax). In particular, this summary does not address all tax considerations applicable to investors that own (directly, indirectly, or by attribution) 10 per cent. or more of our voting stock, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, investors liable for the alternative minimum tax or the Medicare tax on net investment income, certain US expatriates, persons that have ceased to be US citizens or lawful permanent residents of the United States, individual retirement accounts and other tax-deferred accounts, partnerships or other pass-through entities for US federal income tax purposes, tax-exempt organisations, dealers in securities or currencies, securities traders that elect mark-to-market tax accounting, investors that will hold the Shares as part of constructive sales, straddles, hedging, integrated or conversion transactions for US federal income tax purposes or investors whose "functional currency" is not the US dollar).

The following summary is based on the US Internal Revenue Code of 1986, as amended (the "**IRC**"), its legislative history, existing and proposed US treasury regulations thereunder, published rulings of the IRS, published court decisions, and the income tax treaty between the United States and the UK and judicial and administrative interpretations thereof, in each case as available on the date of this Prospectus. Changes to any of the foregoing, or changes in how any of these authorities are interpreted, may affect the tax consequences set out below, possibly retroactively. No ruling will be sought from the IRS with respect to any statement or conclusion in this discussion, and there can be no assurance that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, a court will uphold such statement or conclusion.

For purposes of the following summary, a "**US Holder**" is a beneficial owner of Shares that is for US federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation or other entity treated as a corporation for US federal income tax purposes created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate, the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust if (A) a court within the United States is able to exercise primary supervision over its administration and (B) one or more United States persons (as defined in the IRC) have the authority to control all of the substantial decisions of such trust.

If a partnership (including any entity treated as a partnership for US federal income tax purposes) holds Shares, the US federal income tax consequences to the partners of such partnership will depend on the activities of the partnership and the status of the partners. Prospective purchasers that are entities treated as partnerships for US federal income tax purposes, and partners in such entities, should consult their own tax advisers about the consequences of the investment.

The summary of US federal income tax consequences set out below is for general information only. It is not intended to be relied upon by purchasers for the purpose of avoiding penalties that may be imposed under the IRC. Prospective purchasers of Shares should consult their own tax advisers with respect to the US federal, state, local and non-US tax consequences to them in their particular circumstances of acquiring, holding, and disposing of Shares.

2.2 *Distributions by the Company*

The gross amount of any distribution by the Company with respect to Shares will generally be taxable to a US Holder as foreign source ordinary dividend income to the extent paid out of its current or accumulated earnings and profits (as determined under US federal income tax principles). Because the Company does not expect to maintain calculations of its earnings and profits in accordance with US federal income tax principles, US Holders should expect that a distribution will generally be treated as a dividend for US federal income tax purposes. Subject to applicable limitations, dividends paid to non-corporate US Holders will be subject to US federal income tax at lower rates than other types of ordinary income so long as the Shares are regularly traded on the London Stock Exchange. Distributions paid by the Company will not be eligible for the dividends received deduction allowed to corporations.

Dividends paid in pounds sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the pounds sterling are converted into US dollars at that time. If dividends received in pounds sterling are converted into US dollars at the spot rate in effect on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

2.3 *Proceeds from the Sale, Exchange or Retirement of the Shares*

Upon the sale, exchange or retirement of Shares, a US Holder will generally recognise US source capital gain or loss for US federal income tax purposes equal to the difference, if any, between the US dollar amount realised on the sale, exchange or retirement and the US Holder's adjusted tax basis in the Shares.

Any gain or loss generally will be a long-term capital gain or loss if the US Holder's holding period in Shares exceeds one year. The deductibility of capital losses is subject to limitations.

U.S. Holders should consult their advisers about how to account for payments made or received in non-US dollars.

2.4 *Passive Foreign Investment Company Rules*

In general, a non-US corporation will be classified as a passive foreign investment company (a "**PFIC**") for any taxable year if at least (i) 75 per cent. of its gross income is classified as "passive income" or (ii) 50 per cent. of the average quarterly value of its assets produce or are held for the production of passive income. For this purpose, passive income generally includes, among other items, dividends, interest, gains from certain commodities transactions, certain rents, royalties and gains from the disposition of passive assets. However, under certain proposed US treasury regulations the gross income derived from the active conduct of certain banking activities is treated as non-passive income.

The Company does not believe it was a PFIC for US federal income tax purposes for its most recent taxable year and does not expect to be a PFIC for the current taxable year or in the foreseeable future. This is based on proposed US treasury regulations described above, on estimates of CYBG Group's income and assets and expectations of active banking activity. The proposed US treasury regulations may not be finalised in their current form, the application of the proposed regulations to the Company's circumstances is not entirely clear, and the composition of the Company's income and assets will vary over time, and accordingly there can be no assurance that the Company will be or will not become a PFIC for any particular taxable year.

If the Company is or becomes a PFIC, unless a US Holder elects to be taxed annually on a mark-to-market basis with respect to its Shares or meets the requirements to make, and makes, a "qualified electing fund" election, any gain realized on a sale or other taxable disposition of Shares and certain "excess distributions" (generally distributions in excess of 125 per cent. of the average distribution over a three-year period or shorter holding period for Shares) would be treated as realized rateably over the US Holder's holding period for Shares, and amounts allocated to prior years during which the Company were a PFIC would be taxed at the highest tax rate in effect for each such year. An additional interest charge will apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the US Holder. Amounts allocated to the year of sale and to any year before the Company became a PFIC would be taxed as ordinary income in the year of sale. The Company does not expect to provide the information a US Holder would need to make a "qualified electing fund" election.

US Holders should consult their own tax advisers about the consequences of holding Shares if the Company is considered a PFIC in any taxable year, including any additional reporting requirements that may apply.

2.5 *Information Reporting and Backup Withholding*

Information returns may be filed with the IRS in connection with distributions on the Shares and the proceeds from the sale or other disposition of the Shares unless a US Holder establishes that it is exempt from the information reporting rules. A US Holder may be subject to backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against its US federal income tax liability and may entitle the US Holder to a refund, provided that the required information is timely furnished to the IRS.

US Holders should consult their own tax advisers regarding any additional tax reporting or filing requirements they may have as a result of acquiring, owning, or disposing of the Shares, including requirements related to the holding of certain foreign financial assets. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

PART 12
DETAILS OF THE GLOBAL OFFER

1. INTRODUCTION

The Demerger will involve NAB demerging approximately 75 per cent. of the Company to NAB Shareholders. The Selling Shareholder intends to sell 25 per cent. of the Company pursuant to the Global Offer (including the Over-allotment Shares).

The Demerger is not conditional on the Global Offer proceeding, and if, for any reason, the Global Offer does not proceed, the Company will continue to seek Admission for its entire issued and to be issued share capital.

At Admission, whether or not the Global Offer has proceeded, the Company will operate its business separately from NAB (other than by virtue of certain limited services arrangements under the Transitional Services Agreement). See Part 13: "*Details of the Demerger and Company Capital Reduction*" for additional information on the Demerger.

2. THE GLOBAL OFFER

The Global Offer comprises an offer of 191,155,491 Sale Shares and 28,673,323 Over-allotment Shares. The Sale Shares and the Over-allotment Shares will on Demerger represent approximately 25 per cent. of the issued share capital of the Company.

If the Global Offer proceeds, it will be fully underwritten by the Managers in accordance with, and subject to, the terms of the Underwriting Agreement, including the satisfaction of the conditions set out therein, and including Admission becoming effective by no later than 8.00 a.m. (London time) on 8 February 2016 or such later time and/or date as the Company and the Joint Global Co-ordinators (on behalf of the Managers) may agree.

Assuming the Global Offer proceeds, it is expected that, immediately following Admission, 100 per cent. of the Shares will be held in public hands (within the meaning of paragraph 6.1.19 of the Listing Rules (which includes Shares held in the form of CDIs)).

If, for any reason, the Global Offer does not proceed, but Admission still occurs, it is expected that immediately following Admission, approximately 75 per cent. of the Shares will be held in public hands (within the meaning of paragraph 6.1.19 of the Listing Rules (which includes Shares held in the form of CDIs)).

The Global Offer is being made by means of an offer of Shares to qualified investors in certain EEA Member States, including to institutional investors in the UK and to certain other institutional investors outside the United States in reliance on Regulation S and to QIBs in the United States in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Company, the Selling Shareholder and the Managers expressly reserve the right to determine, at any time prior to Admission, not to proceed with the Global Offer. If such right is exercised, the Global Offer will lapse and any monies received in respect of the Global Offer will be returned to investors without interest.

When admitted to trading, the Shares will be registered with ISIN number GB00BD6GN030 and SEDOL number BD6GN03 and will be traded on the London Stock Exchange under the ticker symbol "CYBG" and on the ASX under the ticker symbol "CYB".

3. AMOUNT AND USE OF PROCEEDS

The Company is not issuing any Shares pursuant to or in connection with the Global Offer and will not receive any of the proceeds in respect of Sale Shares sold by the Selling Shareholder in the Global Offer.

4. OFFER PRICE AND ALLOCATION

The Offer Price has been determined by the Company and the Selling Shareholder following consultation with the Managers.

The Managers have solicited from prospective investors' indications of interest in acquiring Sale Shares under the Global Offer. Prospective investors have been required to specify the number of Shares which they would be prepared to acquire at the Offer Price. The allocation of Sale Shares among prospective investors will be determined by the Selling Shareholder in consultation with the Company and the Joint Global Co-ordinators.

A number of factors have been considered in determining the Offer Price, the number of Sale Shares and basis of allocation, including the prevailing market conditions, the level and nature of demand for the Sale Shares, the prices bid to acquire the Sale Shares and the objective of establishing an orderly and liquid after-market in the Shares.

All Sale Shares sold pursuant to the Global Offer will be sold, payable in full, at the Offer Price. No commissions, fees, expenses or taxes will be charged to investors by the Company or the Selling Shareholder under the Global Offer. Liability for UK stamp duty and SDRT is described in Part 11: "*Taxation*".

The Sale Shares allocated under the Global Offer have been underwritten, subject to certain conditions, by the Managers, as described in "*Underwriting Arrangements*" below.

Upon accepting any allocation, prospective investors will be contractually committed to acquire the number of Sale Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment. Dealing may not begin before notification of allocations has been made.

Each investor will be required to pay the Offer Price for the Sale Shares sold to such investor in such manner as shall be directed by the Managers.

5. OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offer, the Selling Shareholder has granted Morgan Stanley, the stabilisation manager, (the "**Stabilising Manager**") on behalf of the Managers, an Over-allotment Option which is exercisable in whole or in part, upon notice by the Stabilising Manager, in the Stabilisation Period.

In connection with the Global Offer and the Demerger, the Stabilising Manager or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot the Shares and effect other transactions which may have the effect of supporting the market price of the Shares and/or the CDIs at a level higher than that which might otherwise prevail in the open market. Such transactions may be undertaken at any time during the Stabilisation Period, being the 30-day period following the commencement of conditional dealings in the Shares on the London Stock Exchange. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such stabilising transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Shares or the CDIs above the Offer Price.

In connection with the Global Offer, the Stabilising Manager may, for stabilisation purposes, over-allot Shares up to a maximum of 15 per cent. of the total number of Sale Shares comprised in the Global Offer. For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotments during the Stabilisation Period, the Selling Shareholder has granted to it the Over-allotment Option, pursuant to which the Stabilising Manager may require the Selling Shareholder to sell additional Shares, up to a maximum of 15 per cent. of the total number of Sale Shares comprised in the Global Offer. The Over-allotment Option is exercisable, in whole or in part, upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of the Shares on the London Stock Exchange. To the extent that the Over-allotment Option is exercised, the Stabilising Manager may settle the loan by payment of a cash amount to the Selling Shareholder equal to the number of Shares in respect of which the Over-allotment Option is exercised multiplied by the Offer Price. For further details see "*Stock Lending Arrangements*" below.

Any Shares sold by the Selling Shareholder on exercise of the Over-allotment Option will rank *pari passu* in all respects with the other Shares, including for all dividends and other distributions declared, made or paid on the Shares, will be sold on the same terms and conditions as the Shares being sold in the Global Offer and will form a single class for all purposes with the other Shares.

If Shares are over-allotted, the Stabilising Manager may initially satisfy these over-allocations by borrowing an equivalent number of Shares from the Selling Shareholder at settlement of the Global Offer. The Stabilising Manager may on any day during the Stabilisation Period engage in market stabilisation activities by bidding for and purchasing Shares or CDIs up to the maximum number of Shares overallotted, in accordance with conditions imposed by the Australian Securities & Investments Commission ("**ASIC**") and the ASX and otherwise by law.

These conditions include:

- any stabilising bids by the Stabilising Manager for Shares or CDIs must not, on any trading day, be higher than the lower of the highest current independent bid on the ASX or the Offer Price;
- stabilising purchases of CDIs made by the Stabilising Manager on a given trading day will be disclosed on the ASX company announcements platform prior to commencement of trading on the following trading day (with such disclosure to be made on a daily basis); and
- stabilising bids on the ASX or by the Stabilising Manager will be identified on the ASX's trading platform at the time the bid is made.

To the extent the Stabilising Manager makes stabilisation purchases, the Stabilising Manager will transfer to the Selling Shareholder the Shares and CDIs purchased in market stabilisation activities by way of return of Shares borrowed from the Selling Shareholder under the Stock Lending Agreement.

The Selling Shareholder and the Stabilising Manager have obtained a 'no action letter' from the ASIC in relation to stabilisation transactions conducted during the Stabilisation Period.

6. DEALING ARRANGEMENTS

The Global Offer is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, including Admission occurring and becoming effective by 8.00 a.m. (London time) on 8 February 2016 or such later date as may be determined in accordance with such agreement, and to the Underwriting Agreement not having been terminated. Further details of the underwriting arrangements are set out in paragraph 11 of this Part 12 and a summary of the Underwriting Agreement is set out in paragraph 18.1 of Part 14: "*Additional Information – Material Contracts*".

Application has been made to the FCA for all the Shares to be admitted, whether or not the Global Offer proceeds, to the premium listing segment of the Official List and application has been made to the London Stock Exchange for the Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

Prior to Admission it is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on 3 February 2016. The expected date for settlement of such dealings will be 8 February 2016. All dealings between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued basis" and at the risk of the parties concerned. If the Global Offer does not become unconditional in all respects any such dealings will be of no effect.

Admission is expected to take place and unconditional dealings in the Shares are expected to commence on the London Stock Exchange at 8.00 a.m. (London time) on 8 February 2016.

It is expected that the Shares allocated to investors in the Global Offer will be delivered in certificated or uncertificated form and, for those delivered in uncertificated form, settlement will take place through CREST on Admission. All Shares sold pursuant to the Global Offer will be issued or sold payable in full at the Offer Price. It is intended that, if applicable definitive share certificates in respect of the Global Offer will be distributed as soon as is reasonably practicable. No temporary documents of title will be issued.

7. SALE FACILITY SHAREHOLDERS AND THE SALE FACILITY

Pursuant to the terms of the Demerger, Ineligible Shareholders will not receive Shares or CDIs. Instead, the Shares to which they would otherwise have been entitled will be transferred to the Sale Agent on their behalf and will be dealt with as described below. Small Shareholders, being Eligible Shareholders who individually hold 2,000 NAB Shares or less as at 7.00 p.m. (AEDT) on 5 February 2016 (the "**Scheme Record Date**") are able to elect to participate in the Sale Facility and sell all (but not some only) of the Shares or CDIs to which they are entitled under the Demerger.

The Sale Facility will also be used to sell fractional entitlements arising from rounding down CYBG Securities to which a NAB Shareholder would otherwise be entitled under the Demerger to the nearest whole number.

The Shares or CDIs that would otherwise have been transferred to Sale Facility Shareholders will be transferred to the Sale Agent to be sold on their behalf under the Sale Facility. Under the Sale Facility, the Sale Agent will, as soon as reasonably practicable (and in any event not more than 8 weeks following the Demerger Date ("**Sale Period**"), sell for the benefit of each Sale Facility Shareholder (and NAB in respect of fractional entitlements) the Shares or CDIs in the ordinary course of trading on the LSE's main market for listed securities or the ASX. The person appointed by NAB to sell or facilitate the transfer of the CYBG Securities attributable to Ineligible Shareholders and on behalf of Sale Facility Shareholders (the "**Sale Agent**") will sell those CYBG Securities on the LSE's main market for listed securities (assuming Admission becomes effective) or the ASX (assuming Australian Admission is granted) at such price and on such other terms as the Sale Agent determines in good faith, and at the risk of the Sale Facility Shareholders.

The proceeds from the sale of a Sale Facility Shareholder's CYBG Securities under the Sale Facility (the "**Sale Facility Proceeds**") will be remitted to a Sale Facility Shareholder (free of any brokerage costs or stamp duty) by:

- direct credit to a Sale Facility Shareholder's nominated bank account as noted on the NAB Share Register on the Scheme Record Date, and in accordance with the currency election as noted on the NAB Share Register on the Scheme Record Date; or
- where a Sale Facility Shareholder does not have a registered address in Australia, New Zealand, the United Kingdom or the United States, by dispatching a cheque in Australian dollars by mail to the Sale Facility Shareholder's registered address.

Small Shareholders can elect to donate their Sale Facility Proceeds to ShareGift Australia, a not-for profit organisation that gives shareholders an easy administrative and cost effective way to donate shares or cash proceeds to the community ("**ShareGift**"). If they elect to do so, those Small Shareholders will not receive the proceeds but instead those proceeds will be provided directly to ShareGift. If the number of CYBG Securities to which a NAB Shareholder would be entitled under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of CYBG Securities. Fractions arising from rounding down will be aggregated and sold under the Sale Facility and the proceeds remitted to NAB. It is anticipated that the Sale Facility Proceeds will be dispatched no later than 4 April 2016.

The amount of money received by each Sale Facility Shareholder or ShareGift (if applicable), being the Sale Facility Proceeds, will be calculated on an averaged basis so that all Sale Facility Shareholders will receive the same price for each CYBG Security sold on their behalf, subject to rounding down to the nearest whole Australian cent (before any conversion of the Sale Facility Proceeds into Australian dollars, New Zealand dollars, pounds sterling or US dollars (as applicable)).

Any proceeds from the sale of the Shares on the LSE by the Sale Agent under the Sale Facility will be converted into Australian dollars using the AUD/GBP exchange rate on the day the Sale Agent receives the proceeds of the sale.

The payment of the Sale Facility Proceeds from the sale of the CYBG Securities will be in full satisfaction of the rights of Sale Facility Shareholders under the Demerger.

8. ORDINARY SHARES

The Shares allocated to investors in the Global Offer will be in registered form and will be capable of being held in certificated or, subject to the provisions of the CREST Regulations, uncertificated form where settlement for such uncertificated Shares will take place through CREST on Admission.

Title to the certificated Shares (if any) will be evidenced by entry in either the UK principal register or Australian branch register of members of the Company and title to uncertificated Shares will be evidenced by entry in the operator register maintained by Euroclear UK (which will form part of the register of members of the Company).

No share certificates will be issued in respect of the Shares in uncertificated form. If any such Shares are converted to be held in certificated form, share certificates will be issued in respect of those Shares in accordance with applicable legislation. It is intended that, if applicable definitive share certificates in respect of the Global Offer will be distributed as soon as is reasonably practicable. No temporary documents of title will be issued in respect of the Shares.

Share certificates are valuable documents and should be looked after carefully. If a share certificate is lost, damaged or defaced, a charge may be made for its replacement. Investors who choose to hold their Shares in certificated form will, subject to certain eligibility conditions, be able to buy and sell Shares through banks, stockbrokers or intermediaries offering share dealing facilities.

9. **CREST**

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and to be transferred otherwise than by a written instrument. With effect from Admission, the Articles will permit the holding of the Shares under the CREST system. The Company has applied for the Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Shares following Admission may take place within the CREST system if any Shareholder so wishes.

CREST is a voluntary system and holders of the Shares who wish to receive and retain share certificates will be able to do so. An investor applying for the Shares in the Global Offer may, however, elect to receive the Shares in uncertificated form if that investor is a system-member (as defined in the Uncertificated Securities Regulations) in relation to CREST.

10. **CHESS DEPOSITARY INTERESTS**

CDIs will be able to be traded on the ASX using CHESS. If Admission occurs, Shares will be able to be traded on the London Stock Exchange, but will not be able to be traded on the ASX. This is because ASX rules require all trading to take place on CHESS (the ASX's electronic transfer and settlement system), and the Shares cannot be held directly under the CHESS system or traded on the ASX through CHESS directly as UK law and regulation does not permit CHESS to be used for electronic transferring and holding legal title to securities in companies incorporated under the Companies Act. CDIs have been created to facilitate electronic settlement and transfer of title in Australia for companies in this situation.

The CDIs are a type of depositary interest which provide the holder with beneficial ownership of the underlying Shares. The legal title to these Shares is held by CHESS Depositary Nominees Pty Ltd (the "**Authorised Nominee**"), an Australian depositary entity, being an approved general participant of ASX Settlement and a wholly owned subsidiary of the ASX (I 071 346 506/AFSL 254 514). The Authorised Nominee does not receive any fees for acting as the Authorised Nominee in respect of CDIs.

Each CDI will represent a beneficial interest in one Share and, unlike Shares, each CDI will be able to be transferred and settled electronically on the ASX with settlement occurring in CHESS.

Each Eligible Shareholder who receives a CDI under the Demerger ("**CDI Receiving NAB Shareholder**") will be deemed to acknowledge and agree for the benefit of NAB and the Company that any CDIs issued to them under the Demerger are issued to them on terms that they are subject to the Articles and agree to be bound by the Articles in respect of any CDIs issued to them.

On the Demerger Date, NAB will transfer to the Authorised Nominee the Shares to which the CDI Receiving NAB Shareholders are entitled under the Demerger. The Authorised Nominee will in turn issue CDIs to the CDI Receiving NAB Shareholders and will hold the Shares on trust for them. The Authorised Nominee will be the registered holder of the Shares.

There are a number of differences between holding the CDIs and the Shares. The major differences are that:

- CDI Holders will not have legal title in the underlying Shares to which the CDIs relate. Legal title to the Shares will be held by the Authorised Nominee. CDI Holders will have beneficial ownership of the underlying Shares and legal and beneficial ownership of the CDIs; and
- CDI Holders will not be able to vote personally as Shareholders at a meeting of the Company. Instead, CDI Holders will be provided with a voting instruction form which will enable them to instruct the Authorised Nominee (as legal owner of the Shares) in relation to the exercise of voting rights. In addition, it is expected that a CDI Holder will be able to request the Authorised Nominee to appoint the CDI Holder or a third-party nominated by the CDI Holder as its proxy so that the proxy so appointed may attend meetings and vote personally as the Authorised Nominee's proxy.

10.1 ***Summary of rights and entitlements***

CDIs are units of beneficial ownership in non-Australian securities, where legal title to the securities is held by an Australian depositary entity, the Authorised Nominee, for the purpose of enabling the Company to be traded on the ASX. The Authorised Nominee does not receive any fees for acting as the Authorised Nominee in respect of the CDIs and will be the registered holder of the Shares underlying the CDIs.

If a CDI Holder is sponsored by a participant in CHESS, the holder can hold their CDIs on the CHESS CDI sub-register. Otherwise, the CYBG CDIs will be held on the issuer-sponsored CDI sub-register. Each CDI Holder will receive a holding statement which sets out the number of CDIs held by it and the reference number of the holding. These holding statements will be provided to holders when a holding is first established and if there is a change in their holding of CDIs.

In general, US NAB Shareholders who elect to receive the CYBG CDIs pursuant to the Demerger should be treated in the same manner as US NAB Shareholders who receive the Shares, as discussed below. US NAB Shareholders who receive the CDIs pursuant to the Demerger should consult their tax advisors regarding the treatment of their receipt of the CYBG CDIs.

The CYBG CDIs will be issued, held and traded subject to the relevant provisions of the Articles.

A summary of the rights and entitlements of CDI Holders is set out below. Further information about CDIs is available from the Company Registry, CHESS or any stockbroker in Australia.

10.2 ***Ratio of CDIs to Shares***

Each CDI will represent one underlying Share.

10.3 ***Meetings***

Where CDI Holders instruct the Authorised Nominee to appoint the CDI Holder or another person nominated for that purpose as its proxy in accordance with the procedures summarised below, the proxy so appointed will be able to attend and vote at meetings as the Authorised Nominee's proxy.

10.4 ***Voting***

In order to vote at a meeting of the Company, a CDI Holder may:

- instruct the Authorised Nominee, as legal owner of the Shares, to vote the Shares represented by their CDIs in a particular manner – the instruction form must be completed and returned to the Company Registry prior to a record date fixed for the relevant meeting and notified to CDI Holders in the voting instructions included in a notice of meeting; or
- instruct the Authorised Nominee, as legal owner of the Shares, to appoint the CDI Holder or a third-party nominated for that purpose by the CDI Holder as its proxy so that the proxy so appointed may attend meetings and exercise the votes attached to the Shares represented by their CDIs as the Authorised Nominee's proxy. The instruction form must be completed and returned to the Company Registry prior to a record date fixed for the relevant meeting and notified to CDI Holders; or
- convert their CDIs into a holding of Shares and vote these at the meeting (this must be undertaken prior to a record date fixed by the Board for determining the entitlement of members to attend and vote at the meeting and, if the holder later wishes to sell their investment on the ASX, it would first be necessary to convert those Shares back to CDIs).

As CDI Holders will not appear on the Company's share register as the legal holders of Shares, they will not be entitled to vote at the Company meetings unless one of the above steps is taken.

Further details on the conversion process are set out below. Instruction forms and details of these alternatives will be included in each notice of meeting sent to CDI Holders by the Company.

10.5 ***Converting CDIs to Shares***

Eligible Australian/New Zealand Shareholders will be entitled to make a Share Election to receive Shares instead of CDIs under the Demerger. CDI Holders may at any time convert their CDIs to a holding of underlying Shares by:

- in the case of issuer-sponsored CDIs, notifying the Company Registry; or

- in the case of CDIs sponsored on the CHESS sub-register, notifying their CHESS participant.

In both cases, once the Company Registry has been notified, it will cancel the CDIs and procure the transfer on the Australian branch register of the relevant number of Shares from the Authorised Nominee into the name of the former CDI Holder that has requested the conversion (or their CREST participant). The Shares will then be removed to the Company's UK principal share register and a certificate will be issued in the name of the relevant former CDI Holder or the Shares deposited into their account with their CREST participant.

Holding Shares will, however, prevent a person from selling their Shares on ASX, as only CDIs will be traded on the ASX.

A broker or the Company Registry can assist CDI Holders to convert CDIs to Shares that can be traded on LSE (assuming approval is received for Admission). There may be a fee for this service – the Company Registry or a broker can advise of this when conversion is arranged by the CDI Holder.

Conversion of CDIs into Shares will be suspended until trading of the Shares on the LSE has become unconditional.

10.6 ***Resolution Powers***

The entitlement of any CDI Holder to CDIs, or any rights attaching to CDIs, are subject to the exercise by a relevant authority of a Resolution Power, as further discussed in Part 14*: "Additional Information – Articles of Association – Resolution Powers"*.

10.7 ***Converting Shares to CDIs***

Shares may be converted into CDIs. Holders of Shares may at any time convert those Shares to:

- certificated CDI Holders – by completing and lodging a UK Register Removal and CDI Issuance Form to the Company Registry (see details below on where to return the form); and
- CREST holders CDI Holders – by having their CREST participant submit an electronic CREST withdrawal/CDI issuance request.

UK Register Removal and CDI Issuance Forms should be returned to Computershare's Global Transaction team.

The Company Registry will then move the Shares to the Australian branch register and procure the transfer of the securities from the holder's name into the name of the Authorised Nominee and establish a CDI holding in the name of the relevant holder in the Company's CDI register. Holding statements will then be issued to the CDI Holder.

A broker or the Company Registry can assist a Shareholder to convert Shares to CDIs. There may be a fee for this service – the Company Registry or a broker can advise of this when conversion is arranged by the Shareholder.

10.8 ***Communication with CDI Holders***

CDI Holders will receive all notices and company announcements (such as annual reports) that Company Shareholders are entitled to receive.

10.9 ***Dividends and other Shareholder distributions***

The Company is required to treat CDI Holders, in respect of the distribution of dividends and other entitlements, as if they were the holders of the underlying Shares.

CDIs have all the direct economic benefits of legal ownership to which direct holders of Shares are entitled.

CDIs have all the direct economic benefits of legal ownership to which direct holders of Shares are entitled. If a cash dividend or any other cash distribution is declared in a currency other than Australian or New Zealand dollars, the Company will, convert that dividend or other cash distribution to which CDI Holders are entitled into:

- Australian dollars for CDI Holders resident in Australia; or
- New Zealand dollars for CDI Holders resident in Australia;

and distribute it to the relevant CDI Holders in accordance with the CDI Holder's entitlement. All other holders will receive any cash dividends or cash distributions in pounds sterling.

Due to the need to convert dividends from pounds sterling to Australian or New Zealand dollars in the above mentioned circumstances, CDI Holders may potentially be advantaged or disadvantaged by exchange rate fluctuations, depending on whether the Australian dollar weakens or strengthens against the pound sterling during the period between the declaration of the dividend and conversion into Australian dollars.

10.10 ***Corporate Action***

The Company is required to treat CDI Holders, in respect of corporate action, as if they were the holders of the underlying Shares, to the extent possible.

In addition to the distribution of dividends and other entitlements, corporate action includes, but is not limited to, bonus issues, rights issues, mergers and reconstructions (including any action taken by the Company to reduce, or that will have the effect of reducing, the number of CDIs held by the Authorised Nominee).

10.11 ***Takeovers***

If a takeover bid is made in respect of any of the Shares of which the Authorised Nominee is the registered holder, the Authorised Nominee is prohibited from accepting the offer made under the takeover bid except to the extent that acceptance is authorised by the relevant CDI Holders in respect of the Shares represented by such holding of CDIs in accordance with the ASX Settlement Operating Rules. The Authorised Nominee must accept a takeover offer in respect of the Shares represented by such holding of CDIs if a CDI Holder instructs it to do so and must notify the entity making the takeover bid of the acceptance.

10.12 ***Rights on liquidation or winding up***

In the event of the Company's liquidation, dissolution or winding up, a CDI Holder will be entitled to the same economic benefit on their CDIs as Company Shareholders.

10.13 ***Other rights***

As CDI Holders will not appear on the Company Registry as legal holders of Shares, any other right conferred on CDI Holders may be exercised by means of them instructing the Authorised Nominee.

10.14 ***Fees***

It is not expected that a CDI Holder will incur any additional fees or charges as a result of holding CDIs instead of Shares as a result of the implementation of the Demerger.

10.15 ***Trading in CDIs***

CDI Holders who wish to trade in CDIs will be transferring beneficial title to the Shares rather than legal title. The transfer will be settled electronically by delivery of the relevant CDIs holding through CHESS, thereby avoiding the need to effect settlement by the physical delivery of certificates. Trading in CDIs is no different to trading in other CHESS-approved securities.

On 4 February 2016 (AEDT), trading in CDIs will commence initially on a deferred settlement basis and, after that, is expected to commence on a normal settlement basis on 17 February 2016 (AEDT).

CDI Holders trading on a deferred settlement basis and before the issue of a holding statement in respect of their CDIs do so at their own risk. The proceeds from sale of securities sold on a deferred settlement basis will not be received until after the deferred settlement period has ended.

10.16 ***Further information***

For further information in relation to CDIs and the matters referred to above, please refer to the ASX website www.asx.com.au (see ASX Guidance Note 5 *CHESS Depositary Interests (CDIs)* and the Authorised Nominee's *Understanding CHESS Depositary Interests*), the ASIC MoneySmart website www.moneysmart.gov.au or contact your broker or the Company Registry at the details provided below:

National Australia Bank Limited
GPO Box 2333
Melbourne
Victoria 3001
Australia

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford
Victoria 3067
Australia

11. UNDERWRITING ARRANGEMENTS

The Company, the Directors, the Selling Shareholder and the Managers have entered into the Underwriting Agreement, pursuant to which each Manager has severally agreed, subject to certain conditions, to procure purchasers for the Sale Shares and each of the Managers has severally agreed, subject to certain conditions, to the extent that the Managers fail to procure purchasers for all of the Sale Shares, to purchase its agreed proportion of such unplaced Sale Shares. All such purchases will be at the Offer Price. The Underwriting Agreement contains provisions entitling the Joint Global Co-ordinators (on behalf of the Managers) to terminate the Global Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Global Offer and these arrangements will lapse and any monies received in respect of the Global Offer will be returned to applicants without interest. The Underwriting Agreement provides for the Managers to be paid commissions in respect of the Sale Shares sold pursuant to the Global Offer (including any Over-allotment Shares), including incentive commissions to be paid to some or all of the Managers in the absolute discretion of the Selling Shareholder. The Global Offer is conditional upon *inter alia* Admission becoming effective and the Underwriting Agreement becoming unconditional in accordance with its terms. For additional information, see Part 14: "*Additional Information – Material Contracts – Underwriting Agreement*".

12. STOCK LENDING ARRANGEMENTS

In connection with settlement and stabilisation, the Stabilising Manager (as borrower) has entered into a Stock Lending Agreement with the Selling Shareholder (as lender). Pursuant to this agreement, the Stabilising Manager will be able to borrow up to 28,673,323 Shares for the purposes of, amongst other things, allowing the Stabilising Manager to settle over-allotments, if any, made in connection with the Global Offer. If the Stabilising Manager borrows any Shares pursuant to the Stock Lending Agreement: (i) to the extent that it does not exercise the Over-allotment Option, it will be required to return equivalent securities to the Selling Shareholder and (ii) to the extent that it does exercise the Over-allotment Option, it will (unless the Stabilising Manager and the Selling Shareholder agree otherwise) settle the loan by payment of a cash amount to the Selling Shareholder equal to the number of Shares in respect of which the Over-allotment Option is exercised multiplied by the Offer Price, in each case in accordance with the terms of the Stock Lending Agreement. Any such cash amount described in (ii) may be set-off against any cash amount payable by the Selling Shareholder to the Stabilising Manager in connection with the exercise of the Over-allotment Option.

13. LOCK-UP ARRANGEMENTS

The Company has agreed not to issue any new Shares for a period of 180 days following Admission, subject to certain customary exceptions.

The Directors have agreed that, subject to certain customary exceptions, during the period of 365 calendar days from the date of Admission, they will not, without the prior written consent of the Joint Global Co-ordinators, sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any Shares (or any interest therein or in respect thereof).

Any Shares redelivered to the Selling Shareholder (as lender) by the Stabilising Manager (as borrower) pursuant to the Stock Lending Agreement will not be subject to lock-up arrangements.)

14. SELLING RESTRICTIONS

14.1 *General*

This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities other than the securities to which it relates or any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, such securities by any person in any circumstances in which such offer or solicitation is unlawful and, subject to certain limited exceptions, is not for distribution in or into Australia, Canada, Japan, South Africa, New Zealand, Hong Kong, Singapore or the United States.

Accordingly, unless an exemption under any applicable law is available, the distribution of this Prospectus and the offer and sale of Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been taken or will be taken in any jurisdiction that would permit a public offering or sale of the Shares, or possession or distribution of this Prospectus (or any other offering or publicity material relating to the Shares), in any country or jurisdiction where action for that purpose is required or doing so may be restricted by law.

None of the Shares may be offered for sale or purchase or be delivered, and this Prospectus and any other offering material in relation to the Shares may not be circulated, distributed or published in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

14.2 *US selling restrictions*

The Shares have not been and will not be registered under the Securities Act or qualified for sale under the laws of any state or other jurisdiction of the United States. The Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Shares will be offered and sold in the United States only to QIBs in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act or in offshore transactions outside the United States in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Global Offer, any offer or sale of Shares within the United States by a dealer (whether not participating in the Global Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or other available exemption from registration under the Securities Act.

14.3 *European Economic Area*

In relation to each Relevant Member State, an offer to the public of any Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Managers and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an **offer to the public** in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Global Offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

The Company, the Selling Shareholder, the Managers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

14.4 *Australia*

This Prospectus has not been and will not be lodged with the Australian Securities and Investments Commission or the ASX and is not a disclosure document or product disclosure statement for the purposes of Australian law. This Prospectus (whether in preliminary or definitive form) may not be issued or distributed in Australia and no offer or invitation may be made in relation to the issue, sale or purchase of any Shares in Australia (including an offer or invitation received by a person in Australia) and no shares may be sold in Australia, unless the offer or invitation may be made to investors without a disclosure document or product disclosure statement under Part 6D 2 and part 7.9 of the Corporations Act 2001 (the "**Corporations Act**").

This Prospectus is not, and under no circumstances is to be construed as, an advertisement or a public offering of the Shares in Australia.

This Prospectus has not been prepared for an Australian audience. Australian investors should therefore note that this Prospectus:

- contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person;
- does not contain any securities recommendations or financial product advice, and before making an investment decision, investors need to consider whether the information in this Prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters;
- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

14.5 *South Africa*

This Prospectus will not be registered as a prospectus in terms of the Companies Act 1973 in South Africa and as such, any offer of Shares in South Africa may only be made if it shall not be capable of being construed as an offer to the public as envisaged by section 144 of such Act. Furthermore, any offer or sale of the Shares shall be subject to compliance with South African exchange control regulations.

14.6 *Dubai International Financial Centre*

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this Prospectus you should consult an authorized financial advisor.

14.7 *Hong Kong*

No Shares have been offered or sold, or will be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. In addition, no advertisement, invitation or document relating to the Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

14.8 ***Singapore***

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Shares may not be circulated or distributed, nor may any Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

14.9 ***Japan***

The Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "**FIEL**"). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

14.10 ***Switzerland***

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Issuer, the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Shares.

14.11 ***New Zealand***

This Prospectus has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 ("**FMC Act**"). The Global Offer is not an offer of financial products that requires disclosure under Part 3 of the FMC Act and no product disclosure statement, register entry or other disclosure document under the FMC Act will be prepared in respect of the Global Offer. The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act; or
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act.

If, in the future, any person in New Zealand to whom Shares are issued or sold elects to sell any Shares, they must not do so in any manner which will, or is likely to, result in the Global Offer, or such sale, being viewed as an offer to which Part 3 of the FMC Act is applicable.

15. TRANSFER RESTRICTIONS

United States

Due to the following restrictions, purchasers of Shares in the United States are advised to consult legal counsel prior to making any offer for, resale, pledge or other transfer of the Shares.

Regulation S

Each subscriber or purchaser of the Shares outside the United States will be deemed by its acceptance of the Shares to have represented and agreed, on its own behalf and on behalf of any investor accounts for which it is subscribing for or purchasing the Shares, that neither the Company or any of the Company's affiliates nor any of the Managers, nor any person representing the Company, any of its affiliates or any of the Managers, has made any representation to it with respect to the offering or sale of any Shares, other than the information contained in this Prospectus, which Prospectus has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Shares, it has had access to such financial and other information concerning the Company and the Shares as it has deemed necessary in connection with its decision to purchase any of the Shares, and that (terms defined in Regulation S shall have the same meanings when used in this section);

(a) the subscriber or purchaser understands and acknowledges that the Shares have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act and any other applicable securities law;

(b) the subscriber or purchaser, and the person, if any, for whose account or benefit the subscriber or purchaser is acquiring the Shares, is acquiring the Shares in an "offshore transaction" meeting the requirements of Regulation S and was located outside the United States at the time the buy order for the Shares was originated;

(c) the subscriber or purchaser is aware of the restrictions on the offer and sale of the Shares pursuant to Regulation S described in this Prospectus;

(d) the Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S; and

(e) the Company shall not recognise any offer, sale, pledge or other transfer of the Shares made other than in compliance with the above-stated restrictions.

Each subscriber or purchaser acknowledges that the Company and the Managers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or warranties deemed to have been made by such subscriber or purchaser by its purchase of Shares are no longer accurate, it shall promptly notify the Company and the Managers; if they are acquiring Shares as a fiduciary or agent for one or more investor accounts, each subscriber or purchaser represents that they have sole investment discretion with respect to each such account and full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Rule 144A

Each subscriber or purchaser of the Shares within the United States will be deemed by its acceptance of the Shares to have represented and agreed on its behalf and on behalf of any investor accounts for which it is subscribing for or purchasing the Shares, that neither the Company or any of the Company's affiliates nor any of the Managers, nor any person representing the Company, any of its affiliates or any of the Managers, has made any representation to it with respect to the offering or sale of any Shares, other than the information contained in this Prospectus, which Prospectus has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Shares, it has had access to such financial and other information concerning the Company and the Shares as it has deemed necessary in connection with its decision to purchase any of the Shares, and that (terms defined in Rule 144A shall have the same meanings when used in this section):

(a) the subscriber or purchaser acknowledges that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to restrictions on transfer;

(b) the subscriber or purchaser (i) is a "**QIB**" (as defined in Rule 144A under the Securities Act) ("**QIB**"), (ii) is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, and (iii) is acquiring such Shares for its own account or for the account of a "**QIB**", in each case for investment and not with a view to, or for offer or sale in connection with, any resale or distribution of the Shares in violation of the Securities Act or any state securities laws;

(c) the subscriber or purchaser is aware that the Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the Securities Act;

(d) if the subscriber or purchaser decides to offer, resell, pledge or otherwise transfer such Shares, such Shares may be offered, sold, pledged or otherwise transferred only (A) (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act, (ii) in accordance with Regulation S under the Securities Act, (iii) in accordance with Rule 144 under the Securities Act thereunder (if available), or (iv) in accordance with an effective registration statement under the Securities Act, and (B) in accordance with all applicable securities laws of the states of the United States and any other jurisdiction and agrees to give any subsequent purchaser of such Shares notice of any restrictions on the transfer thereof;

(e) the Shares have not been offered to it by means of any general solicitation or general advertising;

(f) the Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of any Shares;

(g) the subscriber or purchaser will not deposit or cause to be deposited such Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(h) the Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend to the following effect:

THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHO THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) IN ACCORDANCE WITH AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS SECURITY EACH INVESTOR IN THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER AND EACH INVESTOR WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY INVESTOR IN THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. EACH HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

(i) the Company shall not recognise any offer, sale, pledge or other transfer of the Shares made other than in compliance with the above-stated restrictions, and

(j) each subscriber or purchaser agrees that it will give to each person to whom it transfers Shares notice of any restrictions on transfer of such Shares.

Each subscriber or purchaser acknowledges that the Company and the Managers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or warranties deemed to have been made by such subscriber or purchaser by its purchase of Shares are no longer accurate, it shall promptly notify the Company and the Managers; if they are acquiring Shares as a fiduciary or agent for one or more investor accounts, each subscriber or purchaser represents that they have sole investment discretion with respect to each such account and full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Terms defined in Rule 144A or Regulation S shall have the same meanings when used in this paragraph 15.

Each subscriber or purchaser of the Shares will be deemed by its acceptance of the Shares to have represented and agreed that it is purchasing the Shares for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control.

PART 13
DETAILS OF THE DEMERGER AND COMPANY CAPITAL REDUCTION

1. DETAILS OF THE DEMERGER

1.1 *Introduction and Effects of the Demerger*

The Demerger is the proposed separation of CYBG Group's operations from the remaining NAB businesses, to form two independent businesses (each of which will be held under a separate listed company). The Demerger involves NAB demerging 75 per cent. of the shares in the Company to NAB Shareholders. In conjunction with the Demerger some or all of the remaining 25 per cent. of the shares in the Company are being sold by NAB pursuant to the Global Offer.

The Demerger is proposed to occur by way of a scheme of arrangement between NAB and NAB Shareholders (the "**Scheme**"), a related capital reduction of NAB (the "**NAB Capital Reduction**") and a transfer by NAB of the ownership of CYBI (together with its subsidiaries, including Clydesdale Bank) to the Company in consideration for the issue of Shares to or for the benefit of NAB Shareholders and to NAB (for the purposes of the Global Offer). Accordingly, upon implementation of the Demerger, the Company will become the new holding company for CYBG Group.

The Scheme and the NAB Capital Reduction were approved by NAB Shareholders on 27 January 2016 (the "**Scheme Meeting**") and after its confirmation by the Supreme Court of Australia on 1 February 2016, the Scheme became effective and binding on all NAB Shareholders on 2 February 2016.

The NAB Capital Reduction is to be satisfied by the distribution of Shares or CDIs under the Scheme with each NAB Shareholder being entitled to one Share or CDI (as detailed below) for every four NAB Shares they hold as at the Scheme Record Date. The Scheme and the NAB Capital Reduction will be implemented on the Demerger Date. **Conditional dealings in the Shares are expected to commence on the London Stock Exchange on or around 3 February 2016 and deferred settlement trading in the CDIs is expected to commence on the ASX on or around 4 February 2016. It is expected that Admission will become effective and that unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on or around 8 February 2016 and normal settlement trading of the CDIs will commence on the ASX on or around 17 February 2016.**

Following the Demerger, the Company will operate on a standalone basis from NAB (other than in respect of certain transitional arrangements outlined in Part 2: "*Information on CYBG Group – Relationship with NAB*"), as an independent publicly listed company with its own independent board of directors and management. NAB will continue to operate its other existing businesses and remain listed on the ASX.

1.2 *Entitlement to participate in the Demerger*

NAB Shareholders as at the Scheme Record Date (5 February 2016) will be entitled to a NAB Capital Reduction Portion and will participate in the Scheme.

The NAB Capital Reduction Portion will be satisfied by:

- one Share for every four NAB Shares held by an Eligible Australian/New Zealand Shareholder (other than Sale Facility Shareholders) at the Scheme Record Date being distributed to the Authorised Nominee, who will then issue one CDI to the Eligible Australian/New Zealand Shareholder for every Share the Authorised Nominee received in respect of that Eligible Australian/New Zealand Shareholder;
- one Share being distributed to an Eligible Overseas Shareholder for every four NAB Shares held by that Eligible Overseas Shareholder at the Scheme Record Date; or
- one CYBG Security being distributed to the Sale Agent for every four NAB Shares held by a Sale Facility Shareholder at the Scheme Record Date.

1.3 *Demerger elections*

The majority of NAB Shareholders were entitled to make certain elections relating to the type of investment in the Company they wished to receive as part of the Demerger.

Eligible Australian/New Zealand Shareholders (other than Sale Facility Shareholders) were entitled to make a Share Election to receive Shares instead of CDIs under the Demerger.

Eligible Overseas Shareholders (other than Sale Facility Shareholders) were entitled to make a CDI Election to receive CDIs instead of Shares under the Demerger.

Each Small Shareholder (being an Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Scheme Record Date) was entitled to elect to participate in the Sale Facility and have all (but not some) of the Shares or CDIs (as applicable) to which they are entitled under the Demerger sold through the Sale Facility, and have the proceeds of the sale:

- remitted to them (free of any brokerage costs or stamp duty but after deducting any applicable withholding tax); or
- if they so elect, donated to ShareGift.

Ineligible Shareholders were not entitled to make any election. Any Shares to which an Ineligible Shareholder would otherwise have been entitled will automatically be sold by the Sale Agent, with the Sale Facility Proceeds remitted to that Ineligible Shareholder (free of any brokerage costs or stamp duty but after deducting any applicable withholding tax).

1.4 *Implementation of the Demerger*

On the Demerger Date (expected to be on 8 February 2016), the Scheme will be implemented and NAB will reduce its share capital pursuant to the NAB Capital Reduction.

In accordance with the terms of the Sale and Purchase Agreement, NAB will transfer CYBI shares to the Company in consideration for the allotment and issue by the Company of:

- 659,486,442 Shares (representing 75 per cent. of the issued share capital of the Company immediately following Demerger) to NAB as nominee and bare trustee for Scheme Participants or the Sale Agent (as applicable); and
- 219,788,814 Shares (representing, when taken together with NAB's existing shareholding in the Company immediately prior to the Demerger, 25 per cent. of the issued share capital of the Company immediately following Demerger) to NAB legally and beneficially.

The Shares to be distributed to or for the benefit of Scheme Participants or the Sale Agent (as applicable) under the Demerger will first be allotted and issued to NAB by the Company, who will hold the legal title to those Shares as nominee and bare trustee for the Scheme Participants or the Sale Agent (as applicable). NAB will then immediately transfer the legal title to those shares to or for the benefit of the Scheme Participants, NATL, the Authorised Nominee or the Sale Agent (as applicable) as follows:

- each Eligible Australian/New Zealand Shareholder (other than Sale Facility Shareholders) will receive one CDI for every four NAB Shares held by such shareholder at the Scheme Record Date (unless they have made a Share Election);
- each Eligible Overseas Shareholder (other than Sale Facility Shareholders) will receive one Share for every four NAB Shares held by such shareholder at the Scheme Record Date (unless they have made a CDI Election);
- NATL will receive one Share or CDI (as applicable based on NATL's entitlement under the Scheme) for every four NAB Shares held by NATL on the Scheme Record Date; and
- the Sale Agent will receive one Share or CDI for every four NAB Shares held by the Sale Facility Shareholder at the Scheme Record Date.

For the purposes of determining entitlements under the Scheme, NAB Shareholders who hold one or more parcels of NAB Shares as trustee or nominee for, or otherwise on account of, another person will be treated as if they were a separate NAB Shareholder in respect of each parcel of NAB Shares held by them.

If the number of Shares or CDIs that a NAB Shareholder would be entitled to under the Demerger is not a whole number, the number will be rounded down to the nearest whole number of Shares or CDIs (as applicable). The remaining fractional entitlements will be aggregated and transferred to the Sale Agent to be sold in the Sale Facility, the proceeds of which will be remitted to NAB. No NAB Shareholder has any right or entitlement at any time to any cash amount (other than in their capacity as a Sale Facility Shareholder) or any fractions of CYBG Securities to which they would otherwise have been entitled had their entitlement to Shares or CDIs not been rounded down. As a result of the implementation of the Demerger, the Company and CYBG Group will cease to be part of NAB Group.

1.5 ***Listing of Shares***

On 8 February 2016 (in the UK), the Shares are expected to be admitted to listing on the premium segment of the Official List and to trading on the LSE's main market for listed securities on an unconditional basis.

On 9 February 2016, assuming Admission has become effective and the Company is also granted Australian Admission, the Company will be admitted to the ASX Official List as an ASX Foreign Exempt Listing, and the CDIs will commence trading on the ASX on a deferred settlement basis.

For details of dealing arrangements and the applications made to the FCA and the London Stock Exchange for Admission see Part 12: "*Details of the Global Offer – Dealing Arrangements*".

1.6 ***Demerger Principles and Demerger Deed***

In anticipation of the Demerger, NAB and the Company entered into the Demerger Deed on 27 November 2015 to facilitate the orderly separation of CYBG Group from NAB and the transition and emergence of CYBG Group as an independently owned corporate group, in accordance with the fundamental Demerger Principle.

The fundamental Demerger Principle is as follows:

- the Company will have:
    - the entire economic benefit and risk and liabilities of the Company post-Demerger business and former Company businesses as if CYBG Group had owned and operated the Company post-Demerger business and former Company businesses at all times; and
    - none of the economic benefit or risk or liabilities of NAB post-Demerger or former NAB businesses; and
- NAB will have:
    - the entire economic benefit and risk and liabilities of the NAB post-Demerger businesses and former NAB businesses as if the post-Demerger group had owned and operated the NAB post-Demerger business and former NAB businesses at all times; and
    - none of the economic benefit or risk or liabilities of the Company post-Demerger business or former Company businesses.

Further details of the Demerger Deed are set out in Part 14: "*Additional Information – Material Contracts – Demerger Deed*".

1.7 ***Other arrangements***

In connection with the Demerger, NAB and the Company have entered into certain other arrangements, including Transitional Services Agreements to formalise the terms on which they will provide, or procure the provision of, certain services to each other for a transitional period following the Demerger. These other arrangements are more fully described in Part 2: "*Information on CYBG Group – Relationship with NAB*".

2. DETAILS OF THE COMPANY CAPITAL REDUCTION

Following implementation of the Demerger, it is proposed that the share capital of the Company will be reduced to create distributable reserves in the Company by reducing the "nominal" or "par" value of each Share from £1.25 to 10 pence and the aggregate amount of such reduction being credited to distributable reserves (the "**Company Capital Reduction**"). The nominal value of a share does not reflect its market value and the nominal value of a Share is not intended or expected to be reflective of its trading price or the market capitalisation of the Company.

If implemented, the Company Capital Reduction will create distributable reserves for the Company of approximately £1,011 million (based on there being 879,315,256 Shares on issue at the date on which the Company Capital Reduction becomes effective). The distributable reserves created, being in aggregate the amount by which the "nominal" or "par" value of the Shares is reduced pursuant to the

Company Capital Reduction, will provide the Company with flexibility to pay dividends in the future if appropriate or absorb any impairments in the value of its assets should this occur. The Company Capital Reduction is not expected to have any impact on the market value of the Shares or CDIs.

The Company Capital Reduction was approved by NAB, as sole shareholder of the Company, by way of special resolution passed on 20 November 2015. As NAB Shareholders will become the shareholders of the Company if the Demerger is implemented, confirmatory approval of the NAB Shareholders in relation to the Company Capital Reduction was sought and obtained at the General Meeting on 27 January 2016.

The implementation of the Company Capital Reduction is conditional upon:

- implementation of the Demerger;
- confirmation of the Company Capital Reduction by the UK Court at a hearing at the Companies Court, being a court within the Chancery Division of the High Court of Justice in England and Wales, expected to occur on 10 February 2016; and
- the registration by the Registrar of Companies in England and Wales of an office copy of the Court Order confirming the Company Capital Reduction and of the related statement of capital.

The Company Capital Reduction will become effective when the Court Order (including a copy of the related statement of capital) has been duly delivered for registration to, and registered by, the Registrar of Companies in England and Wales. This is expected to occur on 11 February 2016.

PART 14
ADDITIONAL INFORMATION

1. RESPONSIBILITY

1.1 The Company and its Directors (whose names and principal functions appear on page 168 of this document) accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

1.2 Ernst & Young LLP accepts responsibility for its accountant's report set out in the Historical Financial Information and Part 9: "*Unaudited Pro Forma Financial Information*" respectively. To the best of the knowledge of Ernst & Young LLP (who have taken all reasonable care to ensure that such is the case) the information contained therein is in accordance with the facts and contains no omissions likely to affect its import.

2. INCORPORATION AND REGISTERED OFFICE

2.1 The Company was incorporated in England and Wales on 18 May 2015 with registered number 9595911 as a public company limited by shares under the Companies Act with the name Pianodove PLC.

2.2 Pianodove PLC changed its name to CYBG PLC on 1 October 2015.

2.3 The principal legislation under which the Company operates is the Companies Act.

2.4 The registered office of the Company is at 20 Merrion Way, Leeds, LS2 8NZ (telephone number +44 (0)113 807 2000).

2.5 The head office and principal place of business in the UK of the Company is at 40 St Vincent Place/51 West George St, Glasgow, G1 2HL (telephone number +44 (0)141 242 4533).

3. SHARE CAPITAL

3.1 The issued and fully paid share capital of the Company as at incorporation was as follows:

	Issued and fully paid		
Class	**Nominal Value**	**Number**	**Amount**
Ordinary	£1.00 each	1	£1.00

The Company does not have an authorised share capital.

3.2 Immediately following Admission, the issued and fully paid share capital of the Company is expected to be as follows:

	Issued and fully paid		
Class	**Nominal Value**	**Number**	**Amount**
Ordinary	£1.25 each	879,315,256	£1,099,144,070

If the Company Capital Reduction does not become effective there will be no change to the share capital as set out above.

3.3 If the Company Capital Reduction becomes effective, the issued and fully paid share capital of the Company immediately following the Company Capital Reduction becoming effective is expected to be as follows:

	Issued and fully paid		
Class	**Nominal Value**	**Number**	**Amount**
Ordinary	10 pence each	879,315,256	£87,931,525.60

3.4 None of the capital of the Company has been paid for with assets other than cash within the period from incorporation to the date of this Prospectus.

3.5 On incorporation the share capital of the Company was £1.00, being 1 Share of £1.00.

3.6 Since incorporation, the issued share capital of the Company has been changed as follows:

3.6.1 on 11 September 2015, the Company issued 49,999 Shares of £1.00 each, resulting in an issued share capital of 50,000 Shares; and

3.6.2 on 20 November 2015, the Company initially consolidated the Shares into 1 Share with a nominal value of £50,000 and then subsequently divided that Share into 40,000 Shares each with a nominal value of £1.25.

3.7 The shareholder of the Company resolved at a general meeting of the Company held on 20 November 2015 that the Company be granted the following powers and authorities in connection with the Demerger and in substitution for all authorities existing at the date of the meeting:

3.7.1 the directors be unconditionally authorised in accordance with section 551 of the Companies Act to exercise all the powers of the Company to allot ordinary shares in the Company up to an aggregate nominal amount of £2,000, such authority to expire on the earlier of immediately following implementation of the Demerger and 31 August 2016 (the "**Preparatory Allotment Authority**"), and to disapply pre-emption rights in connection with such allotment;

3.7.2 the directors be unconditionally authorised in accordance with section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company up to an aggregate nominal amount of £1,099,094,070 in so far as such shares are to be allotted and issued by the Company pursuant to the terms of the Sale and Purchase Agreement, such authority to expire on the earlier of the day immediately following implementation of the Demerger and 31 August 2016 (the "**Demerger Authority**");

3.7.3 the directors be unconditionally authorised in accordance with section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £200,000,000 in so far as such shares are to be allotted and issued or such rights are to be granted by the Company pursuant to the terms of the Conduct Indemnity Deed, and to disapply pre-emption rights in respect of any such allotment, such authority to expire on 20 November 2020, being five years from the date the authority was granted, but so that the Company may make offers and enter into agreements (including, but not limited to, the Conduct Indemnity Deed) before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires, and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired (the "**Conduct Indemnity Authority**");

3.7.4 the directors be unconditionally authorised in accordance with section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £450,000,000 in connection with the issue by the Company of £450,000,000 fixed rate reset perpetual subordinated contingent convertible notes on or around the date of the Demerger, and to disapply pre-emption rights in connection with any such allotments, such authority to expire on 20 November 2020, being five years from the date the authority was granted, but so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires, and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired (the "**Convertible Notes Authority**"); and

3.7.5 subject to and conditional upon (i) the Scheme having become effective and having been implemented and (ii) the ordinary shares of £1.25 each in the capital of the Company required to be allotted and issued by the Company pursuant to the terms of the Sale and Purchase Agreement as contemplated by the Scheme, having been allotted and issued and registered in the name of NAB in the Company's register of members, the share capital of the Company be reduced by cancelling paid up share capital to the extent of 115 pence on each ordinary share of the Company and reducing the nominal value of each such ordinary share from £1.25 to 10 pence.

3.8 The shareholder of the Company resolved at the same general meeting referred to at paragraph 3.7 above held on 20 November 2015 that, the Company be granted the following powers and authorities, subject to and conditional upon the earlier of Admission or Australian Admission becoming effective, and in place of all existing authorities and/or powers save for the Preparatory Allotment Authority, the Conduct Indemnity

Authority, the Convertible Notes Authority and the Demerger Authority (as the powers and authorities contained in the resolutions were expressed to apply until the end of the Company's next annual general meeting after those resolutions were passed (or, if earlier, until the close of business on 31 March 2017), unless renewed, such authorities and approvals would have expired at the end of the Company's first annual general meeting which was held on 22 January 2016 and therefore such authorities and approvals were renewed on the same terms, and subject to the same conditions, at that time such that they remain in place as originally envisaged, i.e. until the end of the Company's first annual general meeting following the Demerger (or, if earlier, until the close of business on 31 March 2017)):

3.8.1 the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company:

(a) up to an aggregate nominal amount of £29,310,508 being an amount equal to approximately one-third of the issued share capital of the Company immediately following completion of the Company Capital Reduction (such amount to be reduced by the aggregate nominal amount allotted or granted pursuant to the authority referred to in paragraph (b) below in excess of £29,310,508 being an amount equal to approximately one-third of the issued share capital of the Company immediately following completion of the Company Capital Reduction); and

(b) comprising equity securities (as defined in section 560(1) of the Companies Act) up to an aggregate nominal amount of £58,621,017 being an amount equal to approximately two-thirds of the issued share capital of the Company immediately following completion of the Company Capital Reduction (such amount to be reduced by the aggregate nominal amount allotted or granted pursuant to the authority referred to in paragraph (a) above) in connection with an offer by way of a rights issue:

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply until the end of the Company's next annual general meeting (or, if earlier, until the close of business on 31 March 2017) but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired.

The limb of the resolution described in paragraph (b) above allows the directors of the Company to issue up to 87,931,520 ordinary shares of 10 pence each for cash without having first to offer the shares to existing shareholders. This number represents approximately 10 per cent. of the issued share capital of the Company immediately following completion of the Company Capital Reduction and is in line with the Pre-Emption Group's Statement of Principles, as updated in March 2015 (the "**Statement of Principles**"). In exercising this power, the directors intend to adhere to the provisions in the Statement of Principles and not to allot shares for cash on a non pre-emptive basis pursuant to the authority in the resolution described in this paragraph 3.8.1: (i) in excess of an amount equal to 5 per cent. of the total issued ordinary share capital of the Company excluding treasury shares; or (ii) in excess of an amount equal to 7.5 per cent. of the total issued ordinary share capital of the Company excluding treasury shares within a rolling three year period, without prior consultation with shareholders, in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment;

3.8.2 the directors be generally empowered pursuant to section 570 of the Companies Act to allot equity securities (as defined in section 560(1) of the Companies Act) for cash pursuant to the authority referred to in paragraph 3.8.1 above and/or pursuant to section 573 of the Companies Act to sell ordinary shares held by the Company as treasury shares for cash, in each case free of the restriction in section 561 of the Companies Act, such power to be limited:

(a) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or an invitation to apply for, equity securities (but in the case of an allotment pursuant to the authority referred to in paragraph 3.8.1(b) above, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(b) to the allotment of equity securities pursuant to the authority referred to in paragraph 3.8.1(a) above and/or sale of treasury shares for cash (in each case otherwise than in the circumstances referred to in paragraph (a) above) up to a nominal amount of £8,793,152 being an amount equal to approximately 10 per cent. of the issued share capital of the Company immediately following completion of the Company Capital Reduction in aggregate calculated, in the case of equity securities which are rights to subscribe for, or to convert securities into, ordinary shares by reference to the aggregate nominal amount of relevant shares which may be allotted pursuant to such rights,

such power to apply until the end of the Company's next annual general meeting (or, if earlier, until the close of business on 31 March 2017) but so that the Company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the directors may allot equity securities under any such offer or agreement as if the power had not expired;

3.8.3 the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the Companies Act) of Shares, subject to the following conditions:

(a) the maximum number of Shares authorised to be purchased is 87,931,525 representing approximately 10 per cent. of the issued ordinary share capital of the Company immediately following the Demerger;

(b) the minimum price which may be paid for a Share is the nominal value of a Share; and

(c) the maximum price which may be paid for a Share shall be the higher of:

(i) an amount equal to 105 per cent. of the average middle market quotation for a Share for the five business days immediately preceding the day on which that Share is contracted to be purchased; and

(ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, in each case exclusive of expenses;

such authority to expire at the end of the Company's next annual general meeting (or, if earlier, at the close of business on 31 March 2017) but so that the Company may enter into a contract to purchase Shares which will or may be completed or executed wholly or partly after the expiry of the authority and the Company may purchase Shares pursuant to any such contract as if the authority had not expired;

3.8.4 a general meeting, other than an annual general meeting, may be called on not less than 14 clear days' notice, such authority to expire at the end of the Company's next annual general meeting (or, if earlier, at the close of business on 31 March 2017); and

3.8.5 the Company and any member of CYBG Group be generally and unconditionally authorised for the purposes of sections 366 and 367 of the Companies Act to:

(a) make political donations to political parties or independent election candidates not exceeding £100,000 in total;

(b) make political donations to political organisations other than political parties not exceeding £100,000 in total; and

(c) incur political expenditure not exceeding £100,000 in total,

as such terms are defined in the Companies Act and **provided that** the aggregate of (a), (b) and (c) shall not exceed £100,000 and may comprise sums in different currencies which shall be converted at such rate as the directors may in their absolute discretion determine to be appropriate. Such authority will expire at the end of the Company's next annual general meeting (or, if earlier, at the close of business on 31 March 2017).

It is not the policy of CYBG Group to make donations to political parties, or to make other political donations within the normal meaning of that expression, and the Directors have no intention of changing that policy. However, as a result of the wide definitions in the Companies Act, normal expenditure (such as expenditure on organisations concerned with matters of public policy, law reform and representation of the business community) and business activities (such as communicating with government and political parties at local, national and European level) might be construed as political expenditure or as a donation to a political party or other political organisation and fall within the restrictions of the Companies Act, and so the authority has been taken to avoid any inadvertent breach of the provisions of the Companies Act.

3.9 If Admission becomes effective, the Company will be subject to the continuing obligations of the Listing Rules published by the FCA with regard to the issue of securities for cash and, whether or not Admission becomes effective, the provisions of section 561 of the Companies Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) in respect of any shares in the capital of the Company issued which are not the subject of the disapplications referred to at paragraphs 3.7 and 3.8 above.

3.10 The Shares are in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

3.11 Other than as provided by the Takeover Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

3.11.1 *Mandatory bid*

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent., or more of the voting rights in the Company, the acquirer and, depending on circumstances, its concert parties would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

3.11.2 *Squeeze-out*

Under the Companies Act, if an offeror were to make an offer to acquire all of the shares in the Company not already owned by it and were to acquire 90 per cent., of the shares to which such offer related it could then compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their shares and then, six weeks later, it would deliver a transfer of the outstanding shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration to the Company which would hold the consideration on trust for outstanding members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

3.11.3 *Sell-out*

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

3.12 Save as disclosed in this Prospectus:

3.12.1 no share or loan capital of the Company or any of its subsidiaries has within the period from incorporation to the date of this Prospectus (other than intragroup issues by wholly owned subsidiaries or pursuant to the Demerger) been issued or been agreed to be issued fully or partly paid, either for cash, or for a consideration other than cash and no such issue is now proposed;

3.12.2 no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries within the period from incorporation to the date of this Prospectus in connection with the issue or sale of any share or loan capital of any such company; and

3.12.3 no share or loan capital of the Company or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

3.13 A description of the CDIs, which will provide the holder with beneficial ownership of the underlying Shares, and of the rights attaching to them is set out in paragraph 10 of Part 12: "*Details of the Global Offer*".

4. ARTICLES OF ASSOCIATION

4.1 By way of special resolution of the Company passed on 20 November 2015, the Articles of Association adopted subject to and conditional upon and with effect on and from implementation of the Demerger contain provisions to the following effect:

4.1.1 *Objects*

The objects of the Company, in accordance with section 31(1) of the Companies Act, are unrestricted.

4.1.2 *Limited Liability*

The liability of the members is limited to the amount, if any, unpaid on the shares in the Company respectively held by them.

4.1.3 *Rights Attaching to Shares*

(a) *Voting Rights of Members*

Subject to any special terms as to voting for the time being attached to any class of shares (as to which there are none at present) and subject to disenfranchisement in the event of non-payment of any call or other amount due and payable in respect of any share or non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares, on a show of hands every member present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for every share of which he is a holder (except in the case of the Authorised Nominee who shall have (or whose proxy shall have) one vote for every CDI in respect of which a valid voting instruction is received).

The Authorised Nominee may appoint a CDI Holder or a third-party nominated by a CDI Holder as its proxy or proxies so as to enable the person so appointed to attend, speak and vote at general meetings and to demand or join in demanding a poll.

(b) *Dividends*

Subject to the Companies Act and the Articles, the Company may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends. A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors and no dividend may be declared or paid unless it is in accordance with members' respective rights.

Unless the members' resolution to declare or directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise, it must be paid by reference to each members' holdings of shares on the date of the resolution or decision to declare or pay it.

Subject to the provisions of the Companies Act and rights attached to shares, the Company or the directors may fix any date as the record date for a dividend. The record date may be on or at any time before or after a date on which the dividend is declared or paid.

Except as otherwise provided by the Articles or the rights attached to, or the terms of issue of, any shares, all dividends must be declared and paid according to the amounts paid up on the shares on which the dividend is paid and apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Except as otherwise provided by the rights attached to the shares, the Board may determine (i) the currency in which dividends shall be declared; (ii) the currency or currencies in which any dividends declared shall be paid; and (iii) how and when any currency exchange calculations shall be carried out and how any associated costs shall be met.

All dividends or other sums which are payable in respect of shares and unclaimed after having been declared or become payable may be invested or otherwise made use of by the directors for the benefit of the Company until claimed. If 12 years have passed from the date on which a dividend or other sum became due for payment and the distribution recipient has not claimed it, the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by the Company.

The directors may pay any dividend (including any dividend payable at a fixed rate) if it appears to them that the profits available for distribution justify the payment. If the Company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.

Subject to the Articles, the Company may, by ordinary resolution on the recommendation of the directors, decide to pay all or part of a dividend or distribution payable in respect of a share by transferring non-cash assets of equivalent value (including shares or other securities in any company).

Subject to the Companies Act and the Articles, the Company may by ordinary resolution offer to shareholders the right to elect to receive, in lieu of a dividend, an allotment of new ordinary shares credited as fully paid.

(c) *Return of Capital*

A liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division is carried out as between the members or different classes of members.

4.1.4 *Currency*

The Board may differentiate between members as to the currency in which any amount payable to a member is paid.

In deciding the currency in which a payment is to be made to a member, the Board may have regard to the registered address of the member, the register on which a member's shares in the Company are registered and/or any other matters as the Board thinks fit in its absolute discretion.

4.1.5 *Method of Payment*

The Company may pay any dividend, interest or other amount payable in respect of a share in the Company as the Board may decide in its absolute discretion. If the Board decides that a payment will be made by bank or other funds transfer system to an account nominated by a person entitled to the payment, but no such account is nominated by the relevant person or the transfer into a nominated account is rejected or refunded, the Company may credit the amount payable to an account of the Company to be held until the person entitled to the payment nominates a valid account. An amount so credited will be treated as having been paid to the person entitled to the payment at the time it is credited. The Company will not be a trustee of the money and no interest will accrue on the money.

4.1.6 *Transfer of Shares*

(a) Subject to the Articles, shares of the Company are free from any restriction on transfer. In exceptional circumstances approved by the FCA, the directors may refuse to register a transfer of certificated shares **provided that** such refusal would not disturb the market in those shares.

(b) Certificated shares may be transferred by means of an instrument of transfer in writing in any usual form or any other form approved by the directors, which is executed by or on behalf of:

(i) the transferor; and

(ii) (if any of the shares is partly paid) the transferee.

(c) Subject to the Regulations, the transferor remains the holder of a share until the transferee's name is entered in the register of members as the holder of it.

(d) The directors may also, in their absolute discretion, refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment of a share unless all of the following conditions are satisfied:

(i) it is in respect of only one class of shares;

(ii) it is in favour of (as the case may be) a single transferee or renouncee or not more than four joint transferees or renouncees;

(iii) it is duly stamped (if required); and

(iv) it is delivered for registration to the registered office of the Company or such other place as the directors may decide, accompanied by the certificate for the shares to which it relates (except in the case of a person to whom the Company is not required by sections 769, 776, 777 or 778 of the Companies Act to issue a certificate, or in the case of a renunciation) and such other evidence as the directors may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

(e) If the directors refuse to register the transfer of a certificated share or renunciation of a renounceable letter of allotment, the instrument of transfer or renunciation must be returned to the transferee or renouncee as soon as practicable and in any event within two months of the date on which the transfer or renunciation was lodged with the Company with the notice of refusal and reasons for refusal unless they suspect that the proposed transfer or renunciation may be fraudulent.

(f) In accordance with and subject to the provisions of the Regulations, the operator of the relevant system ("**Operator**") shall register a transfer of title to any uncertificated share or any renounceable right of allotment of a share which is a participating security held in uncertificated form unless the Regulations permit the Operator of the relevant system to refuse to register such transfer in certain circumstances in which case the said Operator may refuse such registration.

(g) In accordance with the Regulations, if the Operator refuses to register the transfer of an uncertificated share or of any such uncertificated renounceable right of allotment of a share it must, as soon as practicable and in any event within two months after the date on which the relevant system-member instruction or issuer instruction (as the case may be) was received by the Operator, send notice of the refusal to the relevant system member or participating issuer (as the case may be).

(h) In accordance with and subject to the provisions of the Regulations, where title to an uncertificated share is transferred by means of a relevant system to a person who is to hold such share in certificated form after such transfer, the Company as participating issuer must register the transfer in accordance with the relevant Operator instruction, but so that the Company may refuse to register such a transfer in any circumstance permitted by the Regulations.

(i) In accordance with the Regulations, if the Company as participating issuer refuses to register the transfer of title to an uncertificated share transferred by means of a relevant system to a person who is to hold such share in certificated form after such transfer, it must, as soon as practicable and in any event within two months after the date on which the Operator instruction was received by the Company, send notice of the refusal to the transferee.

(j) The Company (at its option) may or may not charge a fee for registering the transfer of a share or the renunciation of a renounceable letter of allotment or other document or instructions relating to or affecting the title to a share or the right to transfer it or for making any other entry in the register.

4.1.7 *Sale of Small Holdings*

The directors or the secretary may send a notice to a Small Holder notifying him of the Company's intention to sell or arrange the sale of his shares or in the case of a CDI Holder, the shares to which his CDIs relate, unless within a specified period of not less than 6 weeks (as set out in the notice), that Small Holder increases his holding to at least a Marketable Parcel, all of the securities to which the notice relates are sold by the Small Holder, or the Small Holder notifies the Company in writing that he wishes to retain the securities to which the notice relates (a "**Divestment Notice**").

If a Divestment Notice has been sent to a Small Holder, then, unless within the period specified in such notice, the Small Holder has increased his holding to at least a Marketable Parcel, he has sold all of his securities, or he notifies the Company in writing that he wishes to retain his securities, the shareholder to whom the relevant Divestment Notice relates (or where the Divestment Notice relates to CDIs, the Authorised Nominee) is deemed to have irrevocably appointed the Company as the shareholder's agent to sell all of the shares which are the subject of the Divestment Notice at such price and on such terms as may be determined by the secretary or the directors in their sole discretion, and to receive the proceeds of sale on behalf of the Small Holder. The Company may take any action it considers necessary or desirable to effect such a sale.

The Company is not obliged to sell any shares to which a Divestment Notice relates. However, if any disposal is to be made, it must be effected within the period of 10 days following the expiration of the period specified in the Divestment Notice. If any shares are sold, the Company is required to send the proceeds of such sale to the relevant Small Holder in such manner and by such means as may be determined by the directors. The Company will bear the costs of sale of the transferor of the shares sold but is not liable for tax on income or capital gains of the Small Holder.

The Company may not serve more than one Divestment Notice on a particular Small Holder in any 12 month period.

4.1.8 *Variation of Rights*

Subject to the Companies Act, the rights attached to a class of shares may be varied or abrogated (whether or not the Company is being wound up) either (i) with the consent in writing of the holders of at least three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or (ii) with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles.

The rights attached to a class of shares are not, unless otherwise expressly provided for in the rights attaching to those shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own shares in accordance with the Companies Act.

4.1.9 *Company's Lien on Partly Paid shares in the Company*

The Company has a lien over every share which is partly paid for any part of that share's nominal value and any premium at which it was issued, which has not been paid to the Company, and which is payable immediately or at some time in the future, whether or not a call notice has been sent in respect of it. The Company's lien over a share takes priority over any third-party's interest in that share and extends to any dividend or other money payable by the Company in respect of that share and (if that lien is enforced and the share is sold by the Company) the proceeds of sale of that share.

The directors may at any time decide that a share which is or would otherwise be subject to the Company's lien shall not be subject to it, either wholly or in part. Unless otherwise agreed with the transferee, the registration of a transfer of a share operates as a waiver of the Company's lien (if any) on that share solely for the purposes of the transfer.

4.1.10 *Forfeiture*

If a person is liable to pay a call and fails to do so by the due date for payment, the directors may issue a notice of intended forfeiture to that person and, until the call is paid, that person must pay the Company interest on the call from the due date for payment to the actual date of payment (both dates inclusive) at the relevant rate. A notice of intended forfeiture must be in writing, may be sent in respect of any share in respect of which a call has not been paid as required by a call notice, must be sent to the holder of that share or a person entitled to it by reason of the holder's death, bankruptcy or otherwise, must require payment of the call and any accrued interest (and all costs, charges and expenses incurred by the Company by reason of non-payment) by a date which is not less than 14 days after the date of the notice, must state how the payment is to be made and must state that if notice is not complied with, the shares in respect of which the call is payable will be liable to be forfeited.

If a notice of intended forfeiture is not complied with before the date by which payment (including interest, costs, charge and expenses) of the call is required in the notice of intended forfeiture, the directors may decide that any share in respect of which it was given is forfeited, and the forfeiture is to include all dividends or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

If a person's shares have been forfeited, that person remains liable to the Company for all sums payable by that person under the Articles at the date of forfeiture in respect of those shares, including any interest at the relevant rate (whether accrued before or after the date of forfeiture) and costs, charges or expenses.

Failure to give notice to the relevant holder of the share will not invalidate the forfeiture. Forfeited shares shall become the property of the Company.

4.1.11 *Redeemable shares in the Company*

Subject to the Companies Act, the Company may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

4.1.12 *Governing Law*

The Articles and the laws of England and Wales govern the relationship between the Company and its members. The Articles, the laws of England and Wales and, for so long as the Company is listed and the CDIs remain quoted on the ASX, the ASX Settlement Operating Rules govern the relationship between CDI Holders and the Company.

The governing law provisions of the Articles will apply, or will continue to apply, as and to the extent applicable, to any member who becomes a CDI Holder through transmutation of shares in the Company into CDIs and to any CDI Holder who becomes a member through transmutation of CDIs into shares in the Company.

4.1.13 *ASX Settlement Operating Rules*

For so long as the Company is listed and the CDIs remain quoted on the ASX and notwithstanding any provision of the Articles, the directors are authorised to vary or depart from any provisions of the Articles concerning the holding of CDIs if and to the extent necessary to comply with the ASX Settlement Operating Rules save to the extent that such rules conflict or are otherwise inconsistent with the laws of England and Wales or any Resolution Power of any Relevant Resolution Authority.

Each person who is a CDI Holder shall have the right, in respect of the number of CDIs held by them, to direct the Authorised Nominee as to how it should vote with respect to a resolution, to appoint him as its proxy or to appoint as its proxy a person nominated by him.

4.1.14 *ASX Standard Listing*

Save to the extent any of the following conflicts with or is otherwise inconsistent with the laws of England and Wales, any Resolution Power of any Relevant Resolution Authority, the governing law provisions described in paragraph 4.1.12 above or the provisions in respect of Resolution Powers described in paragraph 4.1.16 below, if the Company is admitted to the official list of the ASX (excluding as an ASX Foreign Exempt Listing), then for so long as it is so admitted and it is not, at such time, admitted to listing on the Official List and to trading on the London Stock Exchange's main market for listed securities:

(a) notwithstanding any other provision of the Articles (other than the governing law provisions described in paragraph 4.1.12 above and in respect of the Resolution Powers described in paragraph 4.1.16 below), if the ASX Listing Rules (Standard Listing) prohibit an act being done, that act must not be done;

(b) no provision of the Articles (other than the governing law provisions described in paragraph 4.1.12 above and in respect of the Resolution Powers described in paragraph 4.1.16 below) shall prevent an act being done that the ASX Listing Rules (Standard Listing) require to be done;

(c) if the ASX Listing Rules (Standard Listing) require an act to be done or not to be done, authority shall be deemed to have been given for that act to be done or not to be done (as the case may be);

(d) if the ASX Listing Rules (Standard Listing) require that the Articles contain a particular provision and it does not contain such a provision, the Articles shall be deemed to contain that provision;

(e) if the ASX Listing Rules (Standard Listing) require that the Articles (other than the governing law provisions described in paragraph 4.1.12 above and in respect of the Resolution Powers described in paragraph 4.1.16 below) do not contain a particular provision and they contain such a provision, the Articles (other than the governing law provisions described in paragraph 4.1.12 above and in respect of the Resolution Powers described in paragraph 4.1.16 below) shall be taken not to contain that provision; and

(f) if any provision of the Articles (other than the governing law provisions described in paragraph 4.1.12 above and in respect of the Resolution Powers described in paragraph 4.1.16 below) is or becomes inconsistent with the ASX Listing Rules (Standard Listing), the Articles (other than the governing law provisions described in paragraph 4.1.12 above and in respect of the Resolution Powers described in paragraph 4.1.16 below) shall be taken not to contain that provision to the extent of the inconsistency.

4.1.15 *Registers*

Subject to the Companies Act and the Regulations, the directors may exercise powers conferred on the Company with regard to the keeping of an overseas, local or other register and may make and vary regulations as it thinks fit concerning the keeping of such a register, including the creation of and/or discontinuance of any overseas, local or other register and the transfer of entries in any such register to the main register of the Company or to such other overseas, local or other register as the directors think fit.

Each member and each CDI Holder is deemed to consent to the creation or discontinuance by or on behalf of the directors of any overseas, local or other register and the transfer of entries in any such register to or from the main register of the Company in connection with the exercise of any Resolution Power by any Relevant Resolution Authority.

If the Company is admitted to listing and the CDIs become quoted on the ASX the directors shall, in accordance with the ASX Settlement Operating Rules, establish and (for so long as the Company or the CDIs remain so listed) maintain a register of CDI Holders.

4.1.16 *Resolution Powers*

The entitlement of a member or any CDI Holder to any shares and CDIs, any such person's rights attaching to any shares or any CDIs, the Company's obligations to any member in their capacity as a member of the Company or CDI Holder and the provisions of the Articles are subject to the exercise by a Relevant Resolution Authority of a Resolution Power, including by, but not limited to:

(a) the cancellation or reduction of any amount owed by the Company to any member or CDI Holder in respect of any shares or CDIs or any dividend or distribution thereon;

(b) the cancellation of any shares, or the reduction of the nominal value of any shares;

(c) the transfer or issue of or suspension of rights (in whole or in part) in respect of any or all shares, CDIs or other instruments of ownership or other securities or obligations of the Company to any Relevant Resolution Authority or such other person as that Relevant Resolution Authority determines; or

(d) the conversion of any or all shares and/or CDIs into other instruments of ownership or other securities or obligations of the Company as any Relevant Resolution Authority may determine,

that may result from or relate to any such exercise, and each member and CDI Holder is deemed to consent to any such exercise.

The Company, each member and each CDI Holder is bound by any exercise by a Relevant Resolution Authority of a Resolution Power in relation to any or all of the shares and/or CDIs. The entitlement of a member or a CDI Holder to shares and CDIs, any such person's rights attaching to the shares and the CDIs and the Company's obligations to any such person are subject to and will be varied, to the extent necessary, to give effect to any exercise by a Relevant Resolution Authority of a Resolution Power.

The directors may authorise any director or other person to do anything, exercise any powers, take any action and/or execute and deliver any document as agent for and on behalf of any member or CDI Holder as the directors consider necessary to give effect to the exercise by a Relevant Resolution Authority of a Resolution Power and the related provisions in the Articles (including in respect of the transfer of any shares or CDIs and/or any discontinuance of any overseas, local or other register). All acts and things done by or on behalf of any director or other person will be as good and valid as if they had been done by the relevant member or CDI Holder, who is deemed to ratify and confirm whatever is done in the exercise of that authority.

The validity of any action or exercise of the authority granted by the Articles in respect of a Resolution Power is not to be questioned and all claims, demands and rights against the Company of the relevant member or CDI Holder are extinguished in respect of the exercise of the authority granted by the Articles.

4.1.17 *General Meetings*

At least 21 clear days' notice must be given to call an annual general meeting. Subject to the Companies Act, at least 14 clear days' notice must be given to call all other general meetings.

The notice of a general meeting must be given to the members (other than who, under the provisions of the Articles or the terms of allotment or issue of shares are not entitled to receive notice), to the directors, to the beneficial owners nominated to enjoy information rights under the Companies Act and to the Company's auditors. The accidental omission to give notice of a general meeting or to send, supply or make available any document or information relating to a meeting to, or the non-receipt of any such notice by, a person entitled to receive any such notice shall not invalidate the proceedings at that meeting.

All members present in person, and their duly appointed proxy or proxies shall be entitled to attend and to speak at all general meetings of the Company and, such proxy or proxies are entitled to vote instead of such member both on a show of hands and on a poll. A proxy need not also be a member of the Company. A member may appoint more than one proxy in relation to a meeting provided each proxy is appointed to exercise the rights attached to different shares held by that member.

Generally, two qualifying persons present and entitled to vote are a quorum at a general meeting. If the Company has only one member entitled to attend and vote at the general meeting, one qualifying person present at the general meeting and entitled to vote is a quorum.

4.1.18 *Notices and Communications*

(a) A notice, document or other information may be served on or delivered to any member at this registered address or (if he has no registered address within the UK or Australia), at the address if any, within the UK or Australia supplied by him to the Company as his address for the service of notices.

(b) Save where the Articles expressly require otherwise, any notice, document or information to be sent or supplied by or to the Company may be sent or supplied in accordance with the Companies Act (whether authorised or required to be sent or supplied by the Companies Act or otherwise) in hard copy form, in electronic form or by means of a website.

(c) In the case of joint holders of a share, a notice, document or information shall be validly sent or supplied to all joint holders if sent or supplied to whichever of them is named first in the register in respect of the joint holding. Anything to be agreed or specified in relation to a notice, document or information to be sent or supplied to joint holders, may be agreed or specified by the joint holder who is named first in the register in respect of the joint holding.

(d) A notice, document or information sent by post and addressed to a member at his registered address or address for service: (i) is deemed to be given to or received by the intended recipient 24 hours after it was put in the post if prepaid as first class post; 48 hours after it was put in the post if prepaid as second class post; and (ii) 72 hours after it was put in the post if pre-paid for airmail. In proving such service, it shall be sufficient to prove that the envelope containing the notice, document or information was properly addressed, pre-paid and posted.

(e) A notice, document or information sent or supplied by electronic means to an address specified for the purpose by the member is deemed to have been given to or received by the intended recipient 24 hours after it was sent, and in proving service it is sufficient to prove that the communication was properly addressed and sent.

(f) A notice, document or information sent or supplied by means of a website is deemed to have been given to or received by the intended recipient when (i) the material was first made available on the website or (ii) if later, when the recipient received (or is deemed to have received) notification of the fact that the material was available on the website.

(g) In the case of a member registered on a branch register, any notice, documents or other information may be posted or dispatched either in the UK or in the country in which such branch register is maintained.

(h) A member (having no registered address in the UK or Australia) who has not supplied to the Company an address within the UK or Australia or an address for the purposes of communications by electronic means shall not be entitled to receive notices from the Company.

4.1.19 *Directors*

(a) *Number of Directors*

Unless otherwise determined by the Company by ordinary resolution, the number of directors (other than alternate directors) must not be less than two and must not be more than sixteen.

(b) *Appointment*

Subject to the Companies Act, a person can be appointed (or remain) a director regardless of his age.

Subject to the Articles, any person who is willing to act as a director, and is permitted by law to do so, may be appointed to be a director by ordinary resolution at a general meeting, by a decision of the directors or under the Articles if the Company has only one director.

(c) *Remuneration*

Unless otherwise determined by ordinary resolution, directors (but not alternate directors) are entitled for their services to such total fees as the directors determine. The total fees paid to directors must not exceed £2.5 million per annum, or any other amount as decided by ordinary resolution. The total fees will be divided among the directors in the proportions that the directors decide or, if no decision is made, the total fees will be divided equally.

Subject to the Companies Act and to the Articles, the directors' fees may be payable in any form and, in particular, the directors may arrange for part of a fee payable to be provided in the form of fully-paid shares of the Company. The amount of the fee will be applied to purchase or subscribe for shares on behalf of a director.

The directors can pay additional remuneration (whether by way of salary, percentage of profits or otherwise) and expenses to any director who at the request of the directors makes a special journey for the Company, performs a special service for the Company or works abroad in connection with the Company's business.

The Company may repay any reasonable travelling, hotel and other expenses which a director properly incurs in performing his duties as director in connection with his attendance at directors' meetings, committee meetings, general meetings or separate meetings of the holders of a class of shares or debentures of the Company, or otherwise in connection with the exercise of their powers and the discharge of his responsibilities in relation to the Company. Subject to the Companies Act, the directors may make arrangements to provide a director with funds to meet expenditure incurred (or to be incurred) by him for the purposes of the Company or for the purpose of enabling him properly to perform his duties as an officer of the Company or to enable him to avoid incurring any such expenditure.

The directors may decide whether to pay or provide (by insurance or otherwise) pensions, retirement or superannuation benefits, death, sickness or disability benefits, gratuities or other allowances to any person who is or who was a director of (i) the Company, (ii) a subsidiary undertaking of the Company, (iii) any company which is or was allied to or associated with the Company or any of its subsidiary undertakings, or (iv) a predecessor in business of the Company or of any of its subsidiary undertakings (or, in each case, to any member of his family, including a spouse or former spouse, or a person who is or was dependent on him). For this purpose the directors may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums. The directors may arrange for this to be done either by the Company alone or in conjunction with another person.

(d) *Indemnity*

To the extent permitted by the Companies Act and without prejudice to any indemnity to which he may otherwise be entitled, every person who is or was a director or other officer of the Company or an associated company (other than any person (whether or not an officer of the Company or an associated company) engaged by the Company or an associated company as auditor) shall be and shall be kept indemnified out of the assets of the Company against all costs, charges, losses and liabilities incurred by him (whether in connection with any negligence, default, breach of duty or breach of trust by him or otherwise as a director or such other officer of the Company or an associated company) in relation to the Company or an associated company or their affairs, other than in respect (broadly) of any liability incurred by such person to the Company or to an associated company, any criminal or regulatory fine or the costs of defending any criminal proceedings in which such person is convicted.

(e) *Removal of Directors*

In addition to any power of removal under the Companies Act, the Company may by ordinary resolution, remove a director even though his time in office has not ended (without prejudice to a claim for damages for breach of contract or otherwise) and subject to the Articles, by ordinary resolution appoint a person to replace a director who has been removed in this way. A person appointed to replace a director who has been removed, will be due to retire when the director he replaces would have been due to retire. A director may also be removed from office by the service on him of a notice to that effect signed by or on behalf of all his co-directors.

(f) *Annual Retirement*

At each annual general meeting one third of the directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. The directors who retire will be, first, those who wish to retire and, secondly, those directors who have been longest in office since their last appointment or reappointment, or in the case of those who were appointed or reappointed on the same day, the director to be subject to retirement will (unless they otherwise agree) be determined by lot.

A director who retires at an annual general meeting can be reappointed by members. If he is not reappointed (or deemed to be reappointed), he may remain a director until the meeting appoints someone in his place or, if it does not appoint anyone, until the end of the meeting.

If the Company does not fill the vacancy of a director who retires by rotation at an annual general meeting, the retiring director (if willing) will be deemed reappointed unless it is expressly resolved not to fill the vacancy or a resolution for reappointment of the director is put to the meeting and lost.

(g) *Directors' Interests*

The directors may authorise any matter proposed to them which would, if not so authorised, involve a breach of duty by a director under section 175 of the Companies Act. Any such authorisation will be effective only if any requirement as to the quorum at the meeting or part of the meeting at which the matter is considered is met without counting the director in question or any other directors interested in the matter under consideration and the matter was agreed to without such directors voting or would have been agreed to if such directors' vote had not been counted.

A director shall be under no duty to the Company with respect to any information which he obtains or has obtained otherwise than as a director of the Company and in respect of which he owes a duty of confidentiality to another person.

A director who is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the Company must declare the nature and extent of his interest to the other directors before the Company enters into the transaction or arrangement. Such declaration may (but need not) be made at a meeting of the directors or by notice in writing in accordance with section 184 of the Companies Act or by general notice in accordance with section 185 of the Companies Act.

A director who is in any way, directly or indirectly, interested in a transaction or arrangement that has been entered into by the Company must declare the nature and extent of his interest to the other directors as soon as is reasonably practicable (unless the interest has already been declared as above). Such declaration must be made at a meeting of the directors or by notice in writing in accordance with section 184 of the Companies Act or by general notice in accordance with section 185 of the Companies Act.

Subject to the Companies Act and provided he has declared to the directors the nature and extent of any direct or indirect interest of his in accordance with the Articles, a director may be a party to or otherwise be interested in any transaction or arrangement with the Company or in which the Company is directly or indirectly interested or may act by himself or through his firm in a professional capacity for the Company (otherwise than as auditor) and in any such case on such terms as to remuneration and otherwise as the directors may decide or may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise be interested in, any body corporate in which the Company is directly or indirectly interested.

A director shall not, by reason of his office, be accountable to the Company for any remuneration or other benefit which he derives from any office or employment or from any transaction or arrangement or from any interest in any body corporate the acceptance, entry into or existence of which has been authorised by the directors under the Articles or which he is permitted to hold or enter into by virtue of the Articles.

The Company may by ordinary resolution suspend or relax the provisions in the Articles relating to directors' interests to any extent. Subject to the Companies Act, the Company may by ordinary resolution ratify any transaction or arrangement not properly authorised by reason of a contravention of the provisions in the Articles relating to directors' interests.

(h) *General Voting and Quorum Requirements*

Save as otherwise provided by the Articles, a director shall not vote on or be counted in any quorum in relation to a resolution of the directors or a committee of the directors concerning a matter in which he has a direct or indirect interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares, debentures or other securities of or otherwise in or through the Company). This prohibition does not apply to a resolution concerning any of the following matters:

(i) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;

(ii) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(iii) a transaction or arrangement concerning an offer of shares, debentures or other securities of or by the Company or any of its subsidiary undertakings for purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;

(iv) a transaction or arrangement to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which such director or any person connected with him is interested (directly or indirectly) whether as an officer, shareholder, creditor or otherwise, **provided that** he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 820 to 825 of the Companies Act) representing one per cent. or more of either any class of the equity share capital (excluding any shares of that class held as treasury shares) in the relevant company or of the voting rights available to members of the relevant company;

(v) a transaction or arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings (including any pension fund or retirement, death or disability scheme) which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; or

(vi) a transaction or arrangement concerning the purchase or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors.

A director shall not vote on or be counted in the quorum in relation to any resolution of the directors or committee of the directors concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of an office or place of profit with the Company or any body corporate in which the Company is directly or indirectly interested. Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or its termination) of two or more directors to offices or places of profit with the Company or any body corporate in which the Company is directly or indirectly interested, such proposals may be divided and a separate resolution considered in relation to each director. In which case each of the directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

The directors may in their discretion exercise (or cause to be exercised) the powers conferred by shares of another company held (or owned) by the Company or a power of appointment to be exercised by the Company.

(i) *Executive Directors*

Subject to the Companies Act, the directors may appoint one or more of the directors to hold an executive office within the Company for such term and on such other terms and conditions as (subject to the Companies Act) the directors think fit.

The directors may revoke or terminate an appointment, without prejudice to a claim for damages for breach of the contract of service between the director and the Company or otherwise.

The salary or other remuneration of a director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the directors, and may be in addition to or instead of a fee payable to him for his services as director pursuant to the Articles.

4.1.20 *Failure to Disclose Interests in Shares*

Having regard to the requirements of the Listing Rules, where notice is served by the Company under section 793 of the Companies Act (a "**section 793 notice**") on a member, or another person appearing to be interested in shares held by that member, and the member or other person has failed in relation to any shares (the "**default shares**", which expression includes any shares allotted or issued after the date of the section 793 notice in respect of those shares) to give the Company the information required within the prescribed period from the date of service of the section 793 notice, the following sanctions apply, unless the directors otherwise decide:

(a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person, by proxy or by corporate representative) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll; and

(b) where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of their class (excluding any shares of their class held as treasury shares):

(i) a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it, and the member shall not be entitled to elect, under the Articles, to receive shares instead of a dividend; and

(ii) no transfer of any certificated default shares shall be registered unless the transfer is an excepted transfer or:

(A) the member is not himself in default in supplying the information required; and

(B) the member proves to the satisfaction of the directors that no person in default in supplying the information required is interested in any of the shares the subject of the transfer.

5. **OTHER DIRECTORSHIPS**

5.1 The companies and partnerships of which the Directors and Senior Managers are, or have been, within the past five years, members of the administrative, management or supervisory bodies or partners (other than, where applicable, directorships held in the Company and/or CYBG Group) are as follows:

Directors

Name	Current directorships/ partnerships	Previous directorships/ partnerships
James Pettigrew	Crest Nicholson Holdings PLC Aberdeen Asset Management PLC The Edinburgh Investment Trust PLC RBC Europe Limited	Hermes Fund Managers Limited AON UK Limited
David Duffy	—	Allied Irish Banks PLC
Debbie Crosbie	Skidz Limited	Scottish Court Service
Ian Smith	67 Pall Mall Limited	Deloitte LLP
David Bennett	Ashmore Group PLC Paypal (Europe) S.a.r.l et Cie S.C.A. Jerrold Holdings Limited Homeserve Membership Ltd Cheshire Mortgage Corporation Limited	Easyjet plc Bank of Ireland (UK) PLC Pacnet Ltd CMC Markets PLC Clarity Commerce Solutions Lex Futura Limited (Dissolved) David Bennett Advisory Ltd
Richard Gregory	Richard Gregory Consulting Limited Sheffield Children's Hospital NHS Foundation Trust Derbyshire Healthcare NHS Foundation Trust	Chesterfield Royal Hospital NHS Foundation Trust Science City York Limited Derbyshire Health and Wellbeing Board The Foundation Trust Network
David Allvey	Costain Group plc The Costain Charitable Foundation Aviva Life & Pensions UK Limited Friends Annuities Limited Friends Life and Pensions Limited Friends Life Limited Friends Life Services Limited Friends Provident International Limited Aviva Annuity UK Limited Aviva Life Holdings UK Limited Aviva Life Services UK Limited	Intertek Group plc Arena Coventry Limited Thomas Cook Group plc Friends Life FPG Limited William Hill plc Friends Life Holdings plc Friends Life Group Limited

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Adrian Grace	Aegon UK Corporate Services Limited Aegon UK Services Limited Scottish Equitable plc Aegon UK IT Services Limited Scottish Equitable Holdings Limited Aegon Investment Solutions Ltd. Aegon Investment Solutions Nominee 1 (Gross) Ltd. Aegon Investment Solutions – Nominee 2 (Net) Ltd. Aegon Investment Solutions – Nominee 3 (ISA) Ltd. Aegon UK Plc Aegon Holdings (UK) Limited Aegon Pension Trustee Limited Aegon UK Property Fund Limited Scottish Equitable (Managed Funds) Limited Scottish Equitable Life Assurance Society Aegon SIPP Nominee Ltd Aegon Platform Services Limited Aegon SIPP Guarantee Nominee Limited Newcast Property Developments (One) Limited Newcast Property Developments (Two) Limited Aegon NV Momentum Group Limited Origen Trustee Services Limited	Scottish Financial Enterprise Guardian Assurance Limited Guardian Linked Life Assurance Limited Guardian Pensions Management Limited Guardian Financial Services Limited Aegon EDC Limited Guardian Companies Services Limited Guardian Nominees Limited Think Synergy Limited Origen Limited Origen Financial Services Limited Positive Solutions (Financial Services) Ltd. Intrinsic Financial Services Limited Aegon UK Direct Limited (Dissolved) Aegon Benefit Solutions Limited (Dissolved) Aegon UK Distribution Holdings Limited (Dissolved) Noah Financial Services Ltd. (Dissolved) Scottish Equitable Finance Limited (Dissolved) Scottish Equitable International Holdings Plc (Dissolved) Aegon Ireland plc
David Browne	Blue Island Residents Association Limited Pinnacle Partners Limited London Youth Rowing Limited	ED&F Man Trade Finance Limited (Dissolved) ED&F Man Treasury Limited (Dissolved) ED&F Man Produce Limited (Dissolved) ED&F Man Holco Limited (Dissolved)
Barbara Ridpath	Charitable Trustee – Chatham House, The Royal Institute of International Affairs Charitable Trustee – Capital Mass	The International Centre for Financial Regulation (Dissolved)
Teresa Robson-Capps	ACS Clothing Group Limited Broker Network Holdings Limited Payment Shield Group Holdings Limited Towergate Partnershipco Ltd (in Liquidation) TIG Topco Ltd TIG Midco Ltd TIG Finco Plc Towergate Insurance Limited	PowerPlace Insurance Services Limited

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Alex Shapland	Littleton Consulting Limited UKMentors Ltd Community Action Hampshire Zion Arts Centre Limited	PricewaterhouseCoopers LLP

Senior Managers

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Robert Beattie	—	—
Gavin Opperman	—	Standard Chartered Bank (Hong Kong) Ltd Standard Chartered Bank Korea Limited Standard Chartered Korea Limited Standard Chartered Bank (China) Limited
Derek Treanor[(1)]	—	—
Lynn McManus	—	—
Helen Page	—	—
James Peirson	—	—
Kate Guthrie[(2)]	Action for Children	Scottish Widows Pension Trustees Limited Scottish Widows Services Limited Bank of Scotland Foundation
Miles Storey	—	—
Fergus Murphy[(3)]	Irish Business and Employers Confederation (IBEC Limited)	EBS Mortgage Finance EBS Building Society IBEC EBS Limited Haven Mortgages Limited AIB Capital Markets PLC AIB Corporate Finance Federation of Irish Sports Financial Services Ireland

(1) Derek Treanor is currently operating as Acting Chief Risk Officer whilst a search is undertaken for a Chief Risk Officer.

(2) Subject to regulatory approval.

(3) Subject to regulatory approval.

5.2 Save as disclosed below, during the period of five years preceding the date of this Prospectus none of the Directors or Senior Managers:

5.2.1 has any convictions in relation to fraudulent offences;

5.2.2 has been associated with any bankruptcy, receivership or liquidation when acting in his or her capacity as a member of the administrative, management or supervisory body or senior manager of another company, save for Barbara Ridpath, who was chief executive of The International Centre for Financial Regulation which was placed into voluntary administration on 28 November 2012 until 19 November 2013 when it was placed into voluntary creditors liquidation and subsequently dissolved on 5 February 2015; and Teresa Robson-Capps, who was a director at Towergate Partnershipco Limited which was placed into members' voluntary liquidation on 24 August 2015; or

5.2.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

5.3 Save as disclosed in this paragraph, none of the Directors or Senior Managers has any potential conflicts of interests between their duties to the Company and their private interests or other duties. Jim Pettigrew is a non-executive director of RBC Europe Limited which is a Manager of the Global Offer.

5.4 The business address for each of the Directors is 20 Merrion Way, Leeds, LS2 8NZ.

6. **DIRECTORS' AND OTHER INTERESTS**

6.1 As far as the Company is aware, as at the date of this document, none of the Directors or Senior Managers have any interests in the share capital of the Company. Certain Directors and Senior Managers hold shares in NAB which will entitle them to receive CYBG Securities in the Demerger such that immediately following Admission their interest in the Company will be as set out below:

	3 February 2016		**Immediately following Admission**	
	Number of Shares currently held	**% of issued share capital**	**Number of Shares**	**% of issued share capital**
David Duffy	—	—	7,839	0.0
Ian Smith	—	—	8,649	0.0
Debbie Crosbie	—	—	1,287	0.0
Derek Treanor	—	—	164	0.0
James Peirson	—	—	1,155	0.0
Lynn McManus	—	—	930	0.0
Helen Page	—	—	589	0.0
Robert Beattie	—	—	383	0.0
Miles Storey	—	—	51	0.0

Directors and certain other employees will be granted awards shortly after Demerger under the CYBG Deferred Equity Plan (see "*Employee Share Plans – CYBG Employee Share Plans – DEP*" below).

6.2 So far as the Company is aware, as at the date of this document, the following persons (other than the Directors and Senior Managers) hold directly or indirectly three per cent. or more of the Company's issued share capital or will do so immediately following Admission:

	Immediately prior to Admission		**Immediately following Admission**	
Name	**Number of Shares**	**% of issued share capital**	**Number of Shares**	**% of issued share capital**
NAB	879,315,256	100	0	0.0[1]

(1) Pursuant to the terms of the Stock Lending Agreement and to the extent the Stabilising Manager does not exercise the Over-allotment Option or does not exercise the Over-allotment Option in full, the Stabilising Manager will be required to redeliver Shares to the Selling Shareholder, such that the Selling Shareholder may, following such redelivery of Shares, hold up to 28,673,323 Shares (representing up to 3.3 per cent. of the issued share capital). For further details see Part 12: "*Details of the Global Offer – Stock Lending Arrangements*".

Save as set out above, the Company is not aware of any person who has, or will immediately following Admission have, a notifiable interest under the Disclosure and Transparency Rules of three per cent. or more of the voting rights attaching to the issued share capital of the Company.

6.3 Certain persons may also acquire more than 5 per cent. of the Sale Shares being offered pursuant to the Global Offer.

6.4 The Company is not aware of any person who immediately following Admission directly or indirectly, jointly or severally, will own or could exercise control over the Company.

6.5 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

7. DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

7.1 *Executive Service Agreements*

Each Executive Director has entered into a service agreement with Clydesdale Bank which takes effect from Admission, as follows:

David Duffy is engaged as Chief Executive Officer under a service agreement dated 25 November 2015. His period of continuous employment commenced on 5 June 2015. Under his service agreement he is entitled to an annual salary of £1,000,000, an annual car allowance of £30,000, an accommodation allowance of £35,000 per annum payable up to 4 June 2016 (which may be extended at the discretion of the Remuneration Committee for up to an additional 12 months) and an annual cash allowance of £180,000 in lieu of an employer's pension contribution.

Ian Smith is engaged as Chief Financial Officer under a service agreement dated 3 December 2015. His period of continuous employment commenced on 1 November 2014. Under his service agreement he is entitled to an annual salary of £460,000, an annual car allowance of £6,840 and a cash allowance in lieu of employer's pension contribution equal in value (after statutory deductions) to 10 per cent. of base salary.

Debbie Crosbie is engaged as Chief Operating Officer under a service agreement dated 24 November 2015. Her period of continuous employment commenced on 9 June 1997. Under her service agreement she is entitled to an annual salary of £450,000 and an annual car allowance of £6,840. She also participates in the DB Scheme and receives an annual pension allowance of 20 per cent. of the difference between her base salary and the standard scheme-specific earnings cap. This is adjusted to reflect any increased employer national insurance contributions as a consequence of the allowance being taken in cash.

Each Executive Director is entitled to the following benefits: 30 days' holiday (in addition to applicable bank/public holidays), private medical insurance and death in service benefit of four times base annual salary. The service agreements also provide for directors' and officers' liability insurance cover and reimbursement of reasonable business expenses.

Under their service agreements each Executive Director may be awarded remuneration on terms determined by the Remuneration Committee. This includes participation in a short-term incentive plan (the "**Short Term Incentive Plan**") for directors as well as a long-term incentive plan (the "**LTIP**"), as referred to in sections 8 and 9 below.

Each Executive Director's service agreement is terminable by either party on not less than 12 months' written notice. In addition, the employer may terminate the service agreements without notice if payment of base salary in lieu of any unexpired notice is made, payable in equal monthly instalments over the unexpired part of the notice period. The payment in lieu of notice will be reduced by any remuneration the Executive Director receives in return for providing his services to any third-party during the unexpired part of the notice period. The Executive Directors' service agreements also provide for the right to place them on garden leave during any period of notice.

The employer may terminate the employment of any of the Executive Directors with immediate effect if the Executive Director: (i) becomes disqualified from being a director; (ii) commits any act of gross misconduct; (iii) commits any serious or repeated breach or non-observance of their service agreement or refuses to comply with any reasonable and lawful direction; (iv) engages in any conduct which prejudicially affects the interests of the group; (v) is convicted of any criminal offence or any offence under any regulation or legislation relating to insider dealing; (vi) commits any breach of fiduciary duty or act of fraud or dishonesty, whether or not relating to their employment; (vii) is guilty of a serious breach of any rules regarding electronic communications systems; (viii) is declared bankrupt, makes any arrangement with or for the benefit of their creditors, or has a county court administration order made against them; (ix) is negligent and/or incompetent in the performance of their duties; (x) becomes of unsound mind; (xi) ceases to have the right to work in the UK; (xii) fails or ceases to meet the requirements of or becomes disqualified from maintaining any approval, registration or licence required by or from any regulatory body, or commits any breach of the rules, conduct requirements or regulations required by such body in relation to such duties (or as set out in any compliance manual); or (xiii) resigns or vacates any office as a director except as requested or in accordance with any requirement to retire by rotation.

Each Executive Director is subject to a confidentiality undertaking without limitation in time, as well as to six-month post-termination restrictive covenants covering non-competition, non-solicitation of and non-dealing with clients, non-interference with suppliers or contractors and non-solicitation of employees. The duration of the restrictive covenants is reduced by any period spent on garden leave.

In compliance with the Companies Act, the Executive Directors' remuneration is subject to shareholder approval. In the event that such approval is not obtained, when required, the service agreements provide that the Executive Directors will have no entitlement to compensation or damages in respect of loss suffered as a consequence.

7.2 *Non-Executive appointment letters*

Each Non-Executive Director has entered into a letter of appointment with the Company which takes effect from Admission, as follows:

James Pettigrew is engaged as a non-executive director and Chairman of the Company under an appointment letter dated 11 November 2015. He is entitled to a fee of £360,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

David Bennett is engaged as an independent non-executive director and Deputy Chairman of the Company under an appointment letter dated 23 November 2015. He is entitled to a fee of £165,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

Richard Gregory OBE is engaged as the senior independent non-executive director under an appointment letter dated 11 November 2015. He is entitled to a fee of £162,500 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

David Allvey is engaged as an independent non-executive director under an appointment letter dated 11 November 2015. He is entitled to a fee of £110,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

David Browne is engaged as an independent non-executive director under an appointment letter dated 11 November 2015. He is entitled to a fee of £100,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

Adrian Grace is engaged as an independent non-executive director under an appointment letter dated 11 November 2015. He is entitled to a fee of £100,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

Barbara Ridpath is engaged as an independent non-executive director under an appointment letter dated 11 November 2015. She is entitled to a fee of £85,000 per annum. She is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

Teresa Robson-Capps is engaged as an independent non-executive director under an appointment letter dated 11 November 2015. She is entitled to a fee of £80,000 per annum. She is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

Alexander Shapland is engaged as an independent non-executive director under an appointment letter dated 11 November 2015. He is entitled to a fee of £85,000 per annum. He is also a non-executive director of CYBI and Clydesdale Bank under separate appointment letters which also take effect from Admission.

Where relevant, the fees set out above are inclusive of any further amounts due for holding additional office, directorships or committee appointments within CYBG Group.

Each Non-Executive Director is engaged for an initial term of three years, but terminable by either party on not less than three months' written notice, except in the case of the Chairman on six months' written notice. Upon termination, the Non-Executive Directors are not entitled to receive any payments or benefits other than accrued fees for past services, payment of fee in lieu of notice and reimbursement for any outstanding reasonably incurred expenses.

Each Non-Executive Director is eligible for directors' and officers' liability insurance cover and reimbursement of reasonable business expenses. The Non-Executive Directors are not entitled to participate in CYBG Group's bonus, share or other incentive arrangements.

Each Non-Executive Director is subject to a confidentiality undertaking without limitation in time. They are not subject to post-termination restrictive covenants.

7.3 *Benefits upon termination*

Save as set out in this Section 7 there are no existing or proposed service agreements between any Director and any member of CYBG Group providing for benefits upon termination of employment.

7.4 *Other employment considerations*

By the date of Admission, the Company intends to have in place directors' and officers' indemnity insurance in respect of the Directors. This insurance is currently provided by NAB.

8. COMPENSATION

8.1 In the financial year ended 30 September 2015, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to the current Directors and current Senior Managers by members of CYBG Group was £10 million. Of this amount, remuneration to each of the Directors was paid as set out below.

2015 £'000	Salary and fees	Benefits & Allowances	Short term incentives [(1)]	Long term incentives [(2)]	Total Emoluments
Executive Directors					
David Duffy[(3)]	318	78	950	1,500	2,846
Debbie Crosbie	367	119	450	450	1,386
Ian Smith[(4)]	253	53	253	450	1,009
Non-Executive Directors					
David Allvey	92	—	—	—	92
David Bennett[(5)]	—	—	—	—	—
David Browne	80	—	—	—	80
Adrian Grace[(6)]	47	—	—	—	47
Richard Gregory OBE	140	—	—	—	140
James Pettigrew	300	—	—	—	300
Barbara Ridpath	70	—	—	—	70
Teresa Robson-Capps[(7)]	67	—	—	—	67
Alexander Shapland	70	—	—	—	70
Total Directors	1,804	250	1,653	2,400	6,107

(1) The short-term incentives referred to above include both cash and deferred elements. The deferred elements will be awarded in Shares following Demerger. The figures also include David Duffy's commencement award of £500,000 which was awarded over NAB shares (see 10.1 below).

(2) The long-term incentives will be granted under the DEP following Demerger (see "*Remuneration – Approach to remuneration*" below)

(3) David Duffy was appointed as an executive director of CYBI on 5 June 2015. The figures in the table above represent his emoluments from that date.

(4) Ian Smith was appointed as an executive director of CYBI on 11 March 2015. The figures in the table above represent his emoluments from that date and not from the date of his appointment as Chief Financial Officer.

(5) David Bennett was appointed as a non-executive Deputy Chairman of CYBI on 22 October 2015.

(6) Adrian Grace was appointed as a non-executive director of CYBI on 23 December 2014. The figures in the table above represent his emoluments from that date.

(7) Teresa Robson-Capps was appointed as a non-executive director of CYBI on 8 October 2014. The figures in the table above represent her emoluments from that date.

8.2 The total amount within the aggregated total remuneration shown above that is set aside or accrued by CYBG Group to provide pension, retirement or other similar benefits to the current Directors and current Senior Managers is £0.1 million.

9. REMUNERATION

9.1 *Approach to remuneration*

The Company's overall philosophy to remuneration is designed to support both its culture and its business strategy. It is based on the approach that remuneration should be linked to the performance and behaviour of an individual, business results, shareholder outcomes and fair customer outcomes.

The Company's remuneration arrangements are fully compliant with all regulatory requirements, in particular the PRA Remuneration Code. Remuneration arrangements will operate in line with the PRA Remuneration Code as amended from time to time.

The remuneration approach is intended to:

- provide competitive, transparent and fair rewards, benefits and conditions;
- reward achievement of short and long-term individual objectives and business strategy;

- align the interests of employees and shareholders through employee share ownership;
- deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments, ensuring performance assurance principles are applied;
- support the Risk Management Framework; and
- attract, recognise, motivate and retain high performers.

When awarding variable pay, the Company operates a balanced scorecard approach for all employees, with individual objectives linked to business strategy. Employees are required to meet both the balanced scorecard objectives and a number of compliance hurdles to qualify for variable pay. A review of the variable pay structure is currently underway by CYBG Group with the aim of simplifying and harmonising the schemes currently in operation. The intention is for any changes to be in place during the 2015/16 financial year.

In light of the Company's desire to encourage employee share ownership, it is intended that, shortly after Demerger, all employees who are employed by CYBG Group on the date of Demerger will receive an award of Shares with a value of £500 under the SIP.

Shortly after Demerger, the Executive Directors and certain other employees will be granted awards of Shares under the DEP. The terms of the DEP summarised at 10.2 below, including the limits on issuing Shares, will apply to the awards. The awards will be made instead of 2015 awards being granted under the LTIP.

The awards are designed to support the retention and motivation of the leadership team after Demerger. For the Executive Directors, the awards will be over Shares with a value at grant equal to 150 per cent. of base salary as at 30 September 2015 (being £1,500,000) for the CEO and 100 per cent. of base salary as at 30 September 2015 for the other Executive Directors (being £450,000). The number of Shares subject to the awards will be calculated by dividing the monetary value of the award by the average of the middle market quotations of a Share during the three dealing days immediately before grant.

Shares will be awarded within the 2:1 cap on variable to fixed remuneration for the 2015 financial year and will be subject to malus and clawback in line with the PRA Remuneration Code and to forfeiture if the individual leaves CYBG Group in certain circumstances. Shares will vest on the third anniversary of grant if the Company achieves its cumulative profit before tax plan as adjusted by its prudent valuation adjustment figure for the previous three financial years. If the performance target is not met, the awards will lapse in full. Further information on the performance target will be disclosed once it is no longer deemed commercially sensitive.

It is anticipated that the total initial value of the £500 awards to all employees and the awards to Executive Directors and certain other employees under the DEP will total £8.5 million.

At the Chairman of the Board's discretion, an additional fee of up to 50 per cent. of a Non-Executive Director's total 2015 financial year fees may be paid post the date of Admission to recognise a Non-Executive Director's additional duties and increased time commitment in connection with the Demerger and the Global Offer.

The structure and quantum of the Company's ongoing remuneration arrangements for the Executive Directors and material risk takers is in line with a 2:1 cap on variable to fixed remuneration as set out in the PRA Remuneration Code and which NAB as the current sole shareholder has already approved.

9.2 *Executive Directors Remuneration Policy*

Remuneration for Executive Directors is designed to be compliant with the PRA Remuneration Code and has been structured with due consideration of market practice. Executive Director remuneration is benchmarked against peer companies of equivalent size and complexity.

On Admission, Executive Directors' remuneration will comprise of a base salary, a short-term incentive award, a long-term incentive award and appropriate pension and benefit arrangements.

Salary

An Executive Director's salary takes into account the individual's professional experience, individual performance, level of responsibility, the scope and nature of their role and with reference to the market. Base salaries will typically be reviewed annually.

Short Term Incentive Plan

The Executive Directors are eligible to receive an annual bonus. The annual bonus is designed to reward performance and is based on the achievement of pre-determined performance conditions relating to customer experience, financial soundness, risk culture and employee satisfaction.

The maximum award level will not exceed 100 per cent. of base salary.

A proportion of any bonus shall be made in the form of awards over shares which vest over a maximum three-year period and are, to the extent required by the PRA Remuneration Code, subject to a retention period of at least six months upon vesting. The deferred share award will be made under CYBG's Deferred Equity Plan, a summary of which is set out below (see "*Employee Share Plans – CYBG Employee Share Plans – DEP*" below).

Long Term Incentive Plan

The Executive Directors are eligible to participate in the LTIP. The introduction of the LTIP provides a direct link to the achievement of sustainable performance over the longer term.

The maximum LTIP award for any Executive Director in any financial year is 100 per cent. of base salary.

Awards granted under the LTIP will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

A summary of the plan and its intended operation is set out below (see "*Employee Share Plans – CYBG Employee Share Plans – LTIP*" below).

Pensions and benefits

Each Executive Director has pension and other benefits.

Share ownership guidelines

The CEO of the Company will be subject to a shareholding requirement of 200 per cent. of base salary and other Executive Directors to 150 per cent. of base salary. Shareholding requirements must be achieved within five years of Admission or commencing employment (if later). Shares received (after the payment of tax) under incentive arrangements would normally have to be held until these requirements have been met. Shares held on Admission can be used to count towards this threshold.

Other CYBG share plans

The Executive Directors are also eligible to participate in the SIP and, if operated in the future, the SAYE Plan (for further information see "*Employee Share Plans – CYBG Employee Share Plans*" below).

10. EMPLOYEE SHARE PLANS

10.1 *NAB Employee Equity Plans*

Employees of CYBG Group, including the Executive Directors, currently have a beneficial interest in NAB Shares through a trustee or hold Performance Rights over NAB Shares that were granted by NAB under the NAB Plans.

A summary of the number of NAB Shares and Performance Rights currently held by each Executive Director under the NAB Plans is as follows:

			Number of NAB Shares / Performance Rights		
Award type	**Normal vesting date**	**Performance period (if applicable)**	**David Duffy**	**Ian Smith**	**Debbie Crosbie**
2015					
Commencement Shares	5 Dec 2016[(1)]		10,348		
	5 Dec 2017[(1)]		10,348		
	5 Dec 2018[(1)]		10,661		

Award type	Normal vesting date	Performance period (if applicable)	Number of NAB Shares / Performance Rights		
			David Duffy	Ian Smith	Debbie Crosbie
2014					
Commencement Shares	6 Apr 2016[(1)]			11,417	
	6 Apr 2017[(1)]			11,417	
	6 Apr 2018[(1)]			11,763	
Executive Long Term Incentive Rights (“**ELTI**”)	20 Jun 2018[(1)(2)]	11 Nov 2013 – 11 Nov 2017[(2)]			10,161
	21 Jun 2019[(1)(2)]	10 Nov 2014 – 10 Nov 2018[(2)]			13,380
Short Term Incentive Deferral Rights	4 Jun 2016[(1)]	—			1,825
	17 Jun 2016[(1)]	—			2,386
	17 Jun 2017[(1)]	—			2,531
Year End Employee Share Offer Shares (“**YESO**”) ...	10 Dec 2017	—			30
2013					
ELTI	19 Jun 2017[(1)]	1 Jan 2013 – 30 Sept 2016			4,928[(3)]
YESO	11 Dec 2016	—			26
2012					
YESO	12 Dec 2015	—			36
NAB Shares acquired under NAB Share Incentive Plan	n/a	—			1,264

(1) Includes six-month retention period.

(2) If hurdle not met, performance period will be extended to five years with vesting date pushed back for another 12 months.

(3) Debbie Crosbie will also receive a cash amount of £70,000 should the performance conditions be met.

From the date that the Company ceases to be a subsidiary of NAB, NAB Shares and Performance Rights granted to CYBG Group employees under the NAB Plans will be treated as set out below.

NAB Performance Rights Plan

Performance Rights held under the NAB Performance Rights Plan will continue to vest on their original vesting dates, subject to the satisfaction of performance conditions. Performance conditions will not be adjusted on Demerger, but the NAB Board has discretion to adjust vesting outcomes to mitigate the impact of the Demerger. On the vesting of Performance Rights, participants who exercise their rights will receive NAB Shares.

NAB Staff Share Ownership Plan and NAB Staff Share Allocation Plan

As a result of the Demerger, there will be no accelerated vesting of NAB Shares held under the NAB Staff Share Ownership Plan or the NAB Staff Share Allocation Plan. The NAB Shares will continue to vest on their original vesting dates.

Participants in the NAB Staff Share Ownership Plan and NAB Staff Share Allocation Plan are able to participate in the Demerger, through the trustee, in the same way as other NAB Shareholders. The Shares or CDIs received by the trustee on behalf of the participants on the Demerger that relate to the NAB Shares held through the NAB Staff Share Ownership Plan and the NAB Staff Share Allocation Plan are not expected to be subject to vesting conditions and are expected to be sold or transferred as participants direct.

NAB Share Incentive Plan

Employees of CYBG Group, including certain of the Executive Directors, hold NAB Shares through a trustee as a result of participation in the NAB Share Incentive Plan.

Following Demerger, participants in the NAB Share Incentive Plan will continue to hold their NAB Shares in accordance with the plan but no further NAB Shares will be awarded or available for purchase under the plan. NAB Shares held by employees of CYBG Group will be transferred to those employees following the Demerger.

Participants in the NAB Share Incentive Plan were eligible to participate in the Demerger, through the trustee, in the same way as other NAB Shareholders. The Shares or CDIs received by the trustee on behalf of the participants on the Demerger that relate to the NAB Shares held through the NAB Share Incentive Plan cannot be held within the plan and will be sold or transferred as participants direct.

10.2 *CYBG Employee Share Plans*

Conditional on Demerger, the Company Board has adopted the following plans:

- the CYBG Deferred Equity Plan ("**DEP**");
- the CYBG Long Term Incentive Plan ("**LTIP**");
- the CYBG Share Incentive Plan (the "**SIP**"); and
- the CYBG Save As You Earn Plan ("**SAYE Plan**" and together with the DEP, the LTIP and the SIP, the "**CYBG Plans**")).

DEP

The DEP is a discretionary plan under which a proportion of any bonus awarded under the Short Term Incentive Plan to material risk takers and any other employees selected by the Remuneration Committee will be deferred into an award over Shares which will, as a minimum, vest in accordance with the requirements of the PRA Remuneration Code.

The DEP may also be used to award other types of award for recognition, commencement or retention purposes.

LTIP

The Executive Directors and certain other employees are eligible to participate in the LTIP which provides a direct link to the achievement of sustainable performance over the longer term. Awards granted under the LTIP will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

All awards will be in line with the requirements of the PRA Remuneration Code.

SIP

The SIP, which will be registered with HMRC, is an all-employee share plan which offers three ways to provide Shares to employees based in the UK on a tax-favoured basis: free, partnership and matching Shares. The SIP contains all three elements and the Board has the power to decide which, if any, of them should be implemented. The Board may also allow a participant to reinvest any dividends paid in buying additional dividend shares. The SIP operates in conjunction with a trust, which will hold Shares on behalf of employees.

In light of the Company's desire to encourage employee share ownership, it is intended that all employees who are employed by CYBG Group on the date of Demerger will receive an award of free Shares under the SIP with a value of £500. In addition, it is intended to issue invitations for partnership Shares on or shortly after Demerger.

SAYE Plan

The SAYE Plan, which will be registered with HMRC, is an all-employee savings-related share option plan under which participants save a monthly amount to buy Shares. The Company Board may decide to operate the SAYE Plan in the future.

10.2.1 *Terms common to the CYBG Plans*

Overall plan limits

In any 10-year period, not more than 10 per cent. of the issued share capital may be issued under the CYBG Plans and all other employees' share plans adopted by the Company. This limit does not include awards which have lapsed but will include awards satisfied with treasury Shares as if they were newly issued Shares for so long as required by UK institutional investor guidelines.

Source of shares

Awards under the CYBG Plans may be granted over newly issued Shares, Shares held in treasury or Shares purchased in the market.

Timing of awards

With the exception of the SIP, awards may normally only be granted within the six week period beginning with the date of Admission or the Company's announcement of its results for any period. Awards may be granted outside these periods in exceptional circumstances, as determined by the Company Board (or the Remuneration Committee). No awards may be granted more than 10 years after Admission.

Amendments

The Company Board (or the Remuneration Committee) can amend the CYBG Plans in any way. However, shareholder approval will be required to amend certain provisions to the advantage of participants. These provisions relate to eligibility, individual and plan limits, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash comprised in awards, the adjustment of awards on any variation in the Company's share capital and the amendment powers.

Minor amendments can however be made without shareholder approval to benefit the administration of the CYBG Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

General

Any Shares issued under the CYBG Plans will rank equally with Shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

Options and awards granted under the CYBG Plans are personal to participants and, except on death, may not be transferred.

Awards will not form part of pensionable earnings.

10.2.2 *SIP*

Eligibility

All UK tax-resident employees of the Company and any participating subsidiaries must be offered the opportunity to join the SIP. The Company Board can set a minimum qualifying period of employment which may not exceed 18 months or, in certain circumstances, six months.

Free Shares

Free Shares ("**Free Shares**") up to a maximum of £3,600 can be awarded to each participant in any tax year. Free Shares must be awarded on similar terms, although the number of Free Shares awarded to each participant may be varied by reference to remuneration, length of service and hours worked. An award of Free Shares can be subject to performance targets.

Free Shares must be held in the SIP for a period of between three and five years at the discretion of the Board and will be free of income tax if held in the SIP for five years. During this period the participant cannot withdraw the Free Shares from the trust unless he leaves employment or a change of control event occurs.

The Board can provide that the Free Shares will be forfeited if the employee leaves employment, other than where he leaves due to injury, disability, redundancy, transfer of the employing business or company out of CYBG Group, retirement or on death (as a "**Good Leaver**").

Partnership Shares

The Board may invite participants to buy Shares using contributions from pre-tax salary ("**Partnership Shares**") up to a maximum limit set by the Board which cannot exceed the lower of £1,800 or 10 per cent. of pre-tax salary in any tax year. A participant may stop and start deductions at any time.

Participants' contributions can be used to buy Shares immediately or can be accumulated for up to 12 months before being used to buy Shares.

Partnership Shares may be withdrawn from the SIP by the participant at any time and are not forfeitable in any circumstances but the participant will have to pay income tax if the Shares are taken out of the SIP within five years of being bought (unless the participant is a Good Leaver).

Matching Shares

Where a participant buys Partnership Shares, the Board may award the participant free, additional Shares (known as "**Matching Shares**"). Participants may currently be awarded a maximum of two Matching Shares for every Partnership Share purchased.

There is a holding period of between three and five years during which the participant cannot withdraw the Matching Shares from the SIP unless the participant leaves employment or a change of control event occurs.

The Board can provide that Matching Shares will be forfeited if the employee leaves employment, other than where he leaves as a Good Leaver.

Dividends

The Board may allow a participant to reinvest any dividends paid on Free, Partnership or Matching Shares in buying additional Shares ("**Dividend Shares**") which must be held in the SIP for three years, unless the participant leaves employment or a change of control event occurs. Dividend Shares are not forfeitable in any circumstances.

Voting rights

Participants may direct the trustees of the SIP how to exercise the voting rights attributable to the Shares held on their behalf. The trustees of the SIP will not exercise the voting rights unless they receive the participants' instructions.

10.2.3 *SAYE Plan*

Invitations and Eligibility

The Board may at any time (but subject to any relevant regulatory restrictions) invite all eligible employees to apply for options. An eligible employee is any employee or any director who is obliged to devote not less than 25 hours a week to his duties with that company who:

- is employed by the Company or a participating subsidiary and is tax resident in the UK on the date that options are granted; and
- has been continuously employed by the Company or a participating subsidiary for a qualifying service period (not exceeding five years) set by the Board.

The Board can nominate employees who do not satisfy these conditions to participate and can decide which subsidiaries participate.

Savings contracts

An eligible employee who applies for an option under the SAYE Plan must also enter into a savings contract for a period of three or five years. The Board has discretion to determine which savings contract will be made available under any invitation to apply for options. Under the savings contract, the employee will agree to make monthly savings contributions of at least £5 but not more than £500 per month. Shares can only be bought using the amount saved plus any bonus paid under the savings contract.

Option Price

The option price must not be less than 80 per cent. of the market value of the Shares on the date specified in the invitation.

Scaling down

Applications to participate in the SAYE Plan may be scaled down by the Board if they exceed the number of Shares available for the grant of options. The ways in which scaling down may be carried out are set out in the rules of the SAYE Plan.

Exercise of options

Options are normally exercisable for a period of six months after the third or fifth anniversary of the start of the savings contract. Special provisions allow early exercise in the case of a Good Leaver. If a participant ceases employment for any other reason within three years of the grant date, his option will lapse.

Change of control, merger or other reorganisation

Options may generally be exercised early in the event of a change of control, scheme of arrangement, other reorganisation or on the winding up of the Company. Internal reorganisations do not automatically trigger the early exercise of options.

Variation of capital

Options may be adjusted in the event of any variation in the share capital of the Company.

10.2.4 *Terms common to the LTIP and DEP* (***"Executive Plans"***)

Overall limits of the Executive Plans

In any 10-year period, not more than five per cent. of the issued share capital may be issued under awards granted under the Executive Plans and any other discretionary employees' share plans adopted by the Company. This limit does not include awards which have lapsed but will include awards satisfied with Shares transferred out of treasury for so long as required by UK institutional investor guidelines.

Forms of awards

Awards may be granted in different forms as (a) a conditional right to acquire Shares in the future at no cost, (b) an option with a nil exercise price or (c) an acquisition of Shares that are forfeitable in the event that specified vesting conditions are not met.

Malus and clawback

Certain participants in the Executive Plans will be material risk takers for the purposes of the PRA Remuneration Code and malus and clawback provisions will apply to them. For these participants, the Remuneration Committee may, within 7 years of the grant of an award, decide to reduce the number of Shares or, where relevant, the cash amount to which an award relates (malus) or require the participant to make a repayment in respect of an award (clawback) where there is a material misstatement of financial results or in other circumstances prescribed by the PRA Remuneration Code.

Dividend equivalents

The Remuneration Committee may decide at any time before vesting that participants should receive an additional benefit equal in value to any dividends that they would have received during the vesting period, if they had been the holders of the vested Shares. The benefit can be provided as a cash sum or in the form of Shares. Alternatively, the Remuneration Committee may grant an award on terms that the number of Shares subject to the award shall increase by assuming that dividends that would have been paid on those Shares during the vesting period would have been used to buy further Shares.

Cash alternative and cash awards

Where an award has vested (or, in the case of an option, has been exercised) the Remuneration Committee may elect, instead of delivering Shares, to pay cash to the participant. The amount to be paid (subject to deduction of tax or similar liabilities) shall be equal to the market value of the Shares subject to the award. The Executive Plans also have flexibility to allow cash-settled awards to be granted from the outset if considered appropriate.

Holding period

Awards will be subject to a holding period of at least six months following vesting to the extent required by the PRA Remuneration Code. During the holding period, the award will be subject to the malus and clawback provisions but not to the leaver provisions. Instead, a participant will only lose the award where employment is terminated due to gross misconduct. The Remuneration Committee may set a different holding period for subsequent awards, depending on regulatory requirements which apply to CYBG Group in the future.

Leaving CYBG Group

If a participant ceases to be employed as a Good Leaver, or for any other reason at the discretion of the Remuneration Committee, the award will vest on the normal vesting date to the extent that any performance condition has been met over the performance period and pro-rated for time, unless the Remuneration Committee decides otherwise. Alternatively, the Remuneration Committee may allow an award to vest early, subject to satisfaction of the performance condition up to the date that the participant leaves.

Takeovers and reorganisation

Awards will vest in the event of a change of control of the Company to the extent the performance condition has been met up to the event in question and, unless the Remuneration Committee decides otherwise, will be pro-rated for time. Internal reorganisations do not automatically trigger the early vesting of awards.

If any other corporate events occur such as a demerger, delisting or special dividend which, in the opinion of the Remuneration Committee, may affect the current or future value of Shares, the Remuneration Committee may determine that awards will vest. In this case awards will vest to the extent the performance condition has been met up to the event in question and, unless the Remuneration Committee decides otherwise, will be pro-rated for time.

Variation of capital

In the event of any variation in the share capital of the Company, the Remuneration Committee may make such adjustments as it considers appropriate to the number of Shares under award.

10.2.5 *LTIP*

Eligibility

Awards may be granted to selected CYBG Group employees (including Executive Directors) at the discretion of the Remuneration Committee.

Individual limits

The Remuneration Committee will determine the value of awards to be granted to each participant in a financial year up to a maximum of 100 per cent. of base salary in normal circumstances, with the Remuneration Committee retaining discretion to grant awards in excess of this limit in exceptional circumstances, including for the purpose of recruitment, subject always to the 2:1 cap on variable to fixed remuneration.

Performance Condition

The vesting of awards will be subject to the satisfaction of performance conditions which will be set by the Remuneration Committee before the grant of an award. The performance conditions will be disclosed to Shareholders in the Company’s annual report and accounts.

Vesting of awards

In normal circumstances, an award will vest after a performance period (intended to be three years initially), subject to the achievement of satisfactory levels of performance up until the point of vesting.

10.2.6 *DEP*

Eligibility

The Remuneration Committee may select any CYBG Group employee, including any Executive Director, to participate in the DEP if the employee has earned an annual incentive over the previous performance year under the Short Term Incentive Plan.

The DEP may also be used to grant other types of award for recognition, commencement or retention purposes.

Individual limits

In normal circumstances, the overall annual incentive will be up to 100 per cent. of base salary. Awards will be granted under the DEP in line with the PRA Remuneration Code requirements for deferral of variable remuneration.

Vesting of awards

Awards normally vest over a maximum of three years. The Remuneration Committee may set different vesting schedules for subsequent awards, depending on the regulatory requirements which may apply to CYBG Group in the future.

11. PENSIONS

Defined benefit scheme

Clydesdale Bank is the sponsoring employer of a funded tax registered defined benefit occupational pension scheme, the DB Scheme. Under the DB Scheme, benefits provided are based on employees' years of service using either a career average formula or final salary formula. Clydesdale Bank is now the only employer in the DB Scheme. As at 30 September 2015, the DB Scheme had 25,811 members of whom 3,083 were active members, 15,531 were deferred pensioners and 7,197 were pensioners. The DB Scheme was closed to new entrants in 2004 but current active members continue to build up benefits.

The DB Scheme is operated separately from CYBG Group; assets are held and the scheme managed by an independent corporate trustee, Yorkshire and Clydesdale Bank Pension Trustee Limited (the "**DB Trustee**"). The DB Trustee has the power to determine the investment strategy of the DB Scheme after consultation with Clydesdale Bank. Regular actuarial valuations are held (at least every 3 years) to determine the funded status of the DB Scheme. At its last triennial valuation as at 30 September 2013, the DB Scheme was assessed to have a deficit of £450 million on an actuarial basis in line with the relevant statutory requirements, representing a funding level on this basis of 86 per cent. Following this valuation and in line with the relevant legal requirements, Clydesdale Bank agreed to make the following payments relating to the deficit in the DB Scheme: £65 million on 1 October 2013, £150 million by 30 June 2014, £50 million on each of 1 October 2017, 1 October 2018, 1 October 2019, 1 October 2020 and 1 October 2021, and £55 million on 1 October 2022. As at 30 September 2015, the estimated funding level of the scheme had increased to 90 per cent.

Clydesdale Bank has held discussions with the DB Trustee about potential security arrangements in respect of contributions payable under the recovery plan. These discussions are progressing but any arrangements would only be put in place if it could be designed to fit with the regulatory, capital and business requirement of Clydesdale Bank and to provide a level of security that the DB Trustee considers to be improved over the current position.

The following table sets out CYBG Group's pension liability on an accounting basis and on a cash funding basis as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
		£m		
Accounting basis	52	49	(197)	(301)
Cash funding basis	(396)	(244)	(450)	(699)

The cash funding basis refers to the value prepared in accordance with Part 3 of the Pensions Act 2004 and is calculated by the scheme actuary. In 2012, the cash funding basis was calculated as an approximate roll forward of the 2010 actuarial valuation. As at 30 September 2013, the cash funding basis was calculated as part of the full actuarial funding valuation. The cash funding basis will be calculated as an approximate roll forward of the 2013 valuation in subsequent periods. See note 32 in the Historical Financial Information for further information.

Defined contribution scheme

CYBG Group operates a defined contribution pension scheme for its employees (the "**DC Scheme**").

The DC Scheme's assets are held in a separately administered trust that is managed independently of CYBG Group by the scheme's board of trustees (the "**DC Trustee**") to provide pension benefits to past and present employees. The DC Trustee is required to act in the best interests of the beneficiaries of the DC Scheme.

Since April 2006, all employees were automatically included in the DC Scheme on joining CYBG Group. As at 30 September 2015, approximately 8,222 employees, of which 4,773 are active members and 3,449 deferred members, participated in the DC Scheme. For the majority of employees, employer contributions to the DC Scheme are 5 per cent. of pensionable salary plus an additional percentage of pensionable salary up to 5 per cent. based on the level of employee contributions.

In the year ended 30 September 2015, CYBG Group paid approximately £11.9 million employer contributions, which excludes approximately £4.9 million salary sacrifice contributions, to the DC Scheme in accordance with the rates specified by the rules of the scheme.

12. PROPERTY, PLANT AND EQUIPMENT

As at 30 September 2015, CYBG Group occupied 299 properties throughout the UK. Of these, 19 were held as freeholds, 42 as long-term leaseholds (leases of greater than 30 years at term commencement), 238 as short-term leaseholds (leases of less than 30 years at commencement). The majority of these properties are retail branches along with some Business & Private Banking locations. The properties are primarily located in Scotland, the Midlands and the North of England. Other buildings include CYBG Group's Head Office at 40 St Vincent Place/51 West George St, Glasgow and other customer support centres located to suit business needs, predominantly in and around Glasgow.

In addition, as at 30 September 2015 there were 25 properties which were vacant and 32 properties which were sub-let.

12.1 CYBG Group does not own any material properties. The material properties leased by CYBG Group are as follows:

Location	Desc & Tenure	Use	Area (Sq. M)
30-40 St Vincent Pl., Glasgow	Leasehold to 2024	Head Office	3760
51 West George St., Glasgow	Leasehold to 2027	Head Office	4664
5 Fl Granite House, Stockwell St., Glasgow	Leasehold to 2024	Customer Support Centre	2902
1 Fl Guildhall, Queen St., Glasgow	Leasehold to 2018	Customer Support Centre	1719
2 Fl Guildhall, Queen St., Glasgow	Leasehold to 2019	Customer Support Centre	1719
3-5 Fl Guildhall, Queen St., Glasgow	Leasehold to 2024	Customer Support Centre	4857
7 Fl Guildhall, Queen St., Glasgow	Leasehold to 2017	Treasury and Dealing Room	1390
Bering House, Clydebank	Leasehold to 2024	Customer Support Centre	1440
Tasman House, Clydebank	Leasehold to 2018	Customer Support Centre	402

Location	Desc & Tenure	Use	Area (Sq. M)
7 North Ave., Clydebank	Leasehold to 2024	Customer Support Centre	3066
Timor House, Clydebank	Leasehold to 2024	Customer Support Centre	1186
Production Block, 8 North Ave., Clydebank	Leasehold to 2024	Customer Support Centre	3094
The Bunker Data Centre, Sylvania Way, Clydebank	Leasehold to 2032	Data Centre	2393
Data Centre, Gordon Ave., Hillington	Leasehold to 2042	Data Centre	4605

13. SUBSIDIARIES

13.1 The Company will be the holding company of CYBG Group at Admission.

13.2 At Admission the Company will have the following significant subsidiary undertakings, each of which are currently wholly owned, either directly or indirectly, by CYBI and consolidated into the annual financial statements of CYBI:

Name	Principal Activity	Registered Office	Percentage of shares and voting rights held	Jurisdiction
CYB Investments Limited	Holding Company	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Services Limited	IT and group services	30 St Vincent Place, Glasgow, G1 2HL	100%	Scotland
Clydesdale Bank PLC	Banking	30 St Vincent Place, Glasgow, G1 2HL	100%	Scotland
Yorkshire Bank Home Loans Limited	Mortgage Finance	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Intermediaries Holdings Limited	Holding Company	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Intermediaries Limited	Insurance Intermediary	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales

14. WORKING CAPITAL

The Company is of the opinion that CYBG Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

15. SIGNIFICANT CHANGE

Save as disclosed on page 191 in Part 5: "*Operating and Financial Review – Recent Developments*" in relation to recent developments, there has been no significant change in the financial or trading position of CYBG Group since 30 September 2015, the date to which the last financial information has been published.

16. LITIGATION

Save as disclosed below, there are no other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which CYBG Group is aware) during the 12 months preceding the date of this Prospectus which may have, or have had, a significant impact on CYBG Group's financial position, operations or profitability.

Proceedings in connection with conduct-related PPI redress

For information on proceedings and provisions in connection with conduct-related PPI redress see page 198 of Part 5: "*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress-PPI Redress*".

Proceedings in connection with conduct-related IRHP/FRTBL redress

For information on proceedings and provisions in connection with conduct-related IRHP/FRTBL redress see page 198 of Part 5: "*Operating and Financial Review – Significant Factors Affecting Results of Operations and Financial Position – Legacy conduct-related redress – Interest Rate Hedging Products and Other Conduct*".

17. FUNDING PROGRAMMES

CYBG Group raises funding partially through the issue of debt secured by mortgages to third-party institutional investors.

In 2007, CYBG Group established a £20 billion residential mortgage-backed master trust note programme (the "**Lanark Programme**") through which CYBG Group has raised debt in the public markets on a periodic basis, most recently in the issuance under the programme in August 2015.

In 2008, Clydesdale Bank established the Clydesdale Bank €9 billion covered bond programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds LLP (the "**Structured Covered Bond Programme**"). All covered bonds issued under the Structured Covered Bond Programme were retained by Clydesdale Bank upon issuance and all covered bonds issued under the Structured Covered Bond Programme were redeemed and the Structured Covered Bond Programme was unwound and terminated in January 2014.

In 2010, Clydesdale Bank established the Clydesdale Bank €10 billion regulated covered bond programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds No.2 LLP ("**CCB**") (the "**RCB Programme**") through which CYBG Group has raised debt in the public markets, most recently in June 2012.

In 2011, CYBG Group established a £10 billion buy-to-let mortgage-backed master trust note programme (the "**Lannraig Programme**"). All notes issued under the Lannraig Programme have been retained by Clydesdale Bank and/or NAB since issuance.

Master trust structures, including the Lanark Programme and the Lannraig Programme, are a form of securitisation whereby assets (such as mortgage loans in the case of the Lanark Programme and the Lannraig Programme) are ring-fenced for the benefit of noteholders investing in that transaction. The master trust structure allows for multiple issuances from the same structure or platform backed by the relevant ring-fenced assets and assets are added to and removed from the ring-fence on an ongoing basis to support note issuances to investors in the transaction. Notes issued to investors pursuant to a master trust programme are issued by a special purpose vehicle issuer incorporated specifically for the purposes of the relevant transaction and are obligations of such issuer and are not guaranteed by, or the responsibility of, any other entity and therefore noteholders will not have recourse to the sponsor of the transaction or the seller of the assets. The performance of the notes and the issuer's ability to make payments of interest on and principal of the notes depend indirectly on the performance of, and cashflows derived from, the relevant ring fenced asset pool. The credit ratings of notes issued pursuant to a master trust programme are therefore linked, inter alia, to the credit quality of the underlying ring-fenced asset pool.

In contrast, covered bonds issued pursuant to a covered bond programme for a UK bank (including the RCB Programme) are issued by a bank (such as Clydesdale Bank) or other on-balance sheet company issuer rather than a special purpose vehicle issuer incorporated for the purpose of the relevant transaction. In addition, a ring-fenced pool of assets (such as mortgage loans in the case of the RCB Programme) is transferred to a special purpose vehicle (usually a limited liability partnership) which provides a guarantee of the relevant issuer's payment obligations in favour of bondholders. Investors in covered bonds therefore have full, priority recourse to the ring-fenced pool of assets backing the covered bond issuance as well as recourse to the issuer itself. The credit ratings of the covered bonds issued pursuant to a covered bond programme are therefore linked, in part, to the credit quality of the underlying issuer. As with master trust structures, the structure of a covered bond programme allows for multiple issuances from the same platform and, therefore, assets are added to and removed from the ring-fence on an ongoing basis to support bond issuances to investors in the transaction.

Investors should note that there are substantive structural differences between a master trust securitisation programme (such as the Lanark Programme or the Lannraig Programme) and a covered bond programme (such as the RCB Programme) including, without limitation, as described above.

In addition, CYBG Group issued £300 million perpetual capital notes on 20 December 2013 and £150 million perpetual capital notes on 29 December 2014, in each case held by NAB, as part of a capital restructure, which was undertaken to replace instruments that were non compliant for CRD IV purposes with CRD IV compliant instruments. These Additional Tier 1 capital instruments include a provision whereby if the CET1 ratio of CYBG Group falls below 7 per cent., any distributions which were accrued and unpaid would be cancelled and the principal amount of each instrument reduced to zero. These instruments are perpetual securities and have no fixed redemption date and the Issuer shall have the right to redeem them at its option on the date which falls after 5 years after its issuance or any interest payment date thereafter and, at any time, for regulatory reasons or for tax reasons, as more fully described in the terms and conditions of the notes.

Furthermore, CYBG Group issued £250 million Callable Floating Rate Subordinated Notes due January 2021 on 25 January 2011 of which £75 million was repaid early on 29 December 2014 and £300 million Callable Floating Rate Subordinated Notes due December 2023 on 20 December 2013, in each case held by NAB.

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's current interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 notes, with £450 million Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "**New AT1 Notes**") and £475 million 5 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026 (the "**New Tier 2 Notes**"), being an equivalent in principal amount to the notes being repurchased, to be issued by CYBG PLC at the Demerger Date and initially held by NAB. The arrangements for the new instruments will be effected (at CYBG Group's option in respect of the New AT1 Notes only) on market terms, with pricing agreed and terms and conditions substantially agreed between NAB and CYBG Group on 4 November 2015. The effect of these arrangements is intended to allow CYBG Group to optimise its regulatory position in respect of its issuances of capital securities and to provide a single issuing entity for CYBG Group's capital securities following the Demerger.

It is NAB's intention to re-market and sell the New AT1 Notes and the New Tier 2 Notes it will hold in CYBG Group following the Demerger to third-party investors during 2016, and NAB and CYBG Group have agreed that CYBG Group will assist NAB in the re-marketing and sale of the New AT1 Notes and the New Tier 2 Notes. The terms of the proposed New AT1 Notes and the New Tier 2 Notes and other information relating to the re-marketing and sale are set out in Part 14: "*Additional Information – Material Contracts – Demerger Deed – Arrangements between NAB and CYBG Group after separation and intentions of NAB and the Company to further separate capital relationship*".

Credit Ratings

CYBG Group has been and continues to be in discussion with various credit rating agencies about ratings for Clydesdale Bank and obtaining a rating following Admission for the Company, as a standalone bank holding company. It is anticipated that shortly following the Global Offer and Demerger, such credit rating agencies will announce the results of their reviews. As at 2 February 2016, Clydesdale Bank has (i) a long-term issuer default rating of "A" (Rating Watch Negative) by Fitch, a long-term bank deposits rating of "Baa1" (outlook stable) by Moody's and a long-term rating of "BBB+" (credit watch with negative implications) by Standard & Poor's, and (ii) a short-term issuer default rating of "F1" (Rating Watch Negative) by Fitch, a short-term bank deposits rating of "P-2" (outlook stable) by Moody's and a short-term rating of "A-2" by Standard & Poor's. *See "Risk Factors" – Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes.* Credit ratings are opinions about credit risk published by a rating agency. They express opinions about the ability and willingness of an issuer to meet its financial obligations in accordance with the terms of those obligations and are also opinions about the credit quality of an issue, such as a bond or other debt obligation, and the relative likelihood that it may default and may impact the price at which CYBG Group is able to raise funds.

17.1 ***Lanark Residential Mortgage – Backed Master Trust Note Programme***

Description of the Lanark Programme

On 3 August 2007 Lanark Master Issuer plc (the "**Lanark Issuer**"), a special purpose vehicle, established the Lanark Programme. The Lanark Issuer's primary source of funds to make payments on the notes issued pursuant to the Lanark Programme are derived from payments pursuant to the global intercompany loan agreement (the "**Intercompany Loan Agreement**") entered into between the Lanark Issuer and Lanark Funding Limited ("**Lanark Funding**"). Lanark Funding pays amounts due under the Intercompany Loan Agreement principally from its share of the trust property which primarily comprises a portfolio of first ranking residential mortgage loans originated by Clydesdale Bank (and/or originated by Yorkshire Bank Home Loans Limited ("**YBHL**") and subsequently acquired by Clydesdale Bank) and, in each case, secured on properties located in England, Wales and Scotland. The mortgages trustee holds the mortgage portfolio on trust for Clydesdale Bank (in its capacity as seller of the mortgage portfolio) and Lanark Funding. Neither the Lanark Issuer nor the noteholders have any direct interest in the trust property, although the Lanark Issuer will share in the benefit of a security interest created by Lanark Funding over its share of the trust property. The Lanark Issuer's primary asset is its rights under the Intercompany Loan Agreement and the related security created by Lanark Funding. All notes issued to date by the Lanark Issuer have been admitted to the Official List and are admitted to trading on the regulated market of the LSE however, pursuant to the terms of the Lanark Programme, the Lanark Issuer may also issue notes listed or traded on other regulated markets and/or unlisted notes. The maximum aggregate principal amount of all notes from time to time outstanding under the Lanark Programme will not exceed £20 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the Lanark Programme.

Underlying assets

The mortgage loans included in the mortgage portfolio are secured on residential properties located in England, Wales or Scotland and consist of several different types of loan product with a variety of characteristics relating to, among other things, calculation of interest and terms of repayment of principal but exclude buy-to-let mortgage loan products.

Status of the notes and recourse to CYBG Group

The notes are the obligations of the Lanark Issuer alone and are not guaranteed by, or the responsibility of, any other entity including Clydesdale Bank or any other member of CYBG Group. However, Clydesdale Bank still has a connection with the Lanark Programme for other reasons including acting in various capacities as a beneficiary of the mortgages trust, as seller of the mortgage loans, as service provider under the Lanark Programme such as servicer of the mortgage loans in the mortgage portfolio, collection account bank, cash manager, an account bank and a subordinated loan provider. Clydesdale Bank is therefore subject to certain rights and obligations pursuant to the Lanark Programme transaction documentation in each of these capacities. In addition, in respect of a number of these roles, the transaction documentation requires that a minimum corporate credit rating of Clydesdale Bank is maintained and, if such credit rating is not maintained, certain actions may be required to be taken pursuant to the transaction documentation (for example the transfer of such role to a third-party counterparty or obtaining a guarantee of such obligations) and/or certain amendments may need to be made to the transaction documentation. See "*Risk Factors – Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS, covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes*" above for further information.

Further, as at the date hereof, NAB also acts as a service provider in respect of the Lanark Programme in capacities such as an account bank and swap provider. NAB is therefore also subject to certain rights and obligations pursuant to the Lanark Programme transaction documentation in such capacities.

Ongoing obligations of CYBG Group under the Lanark Programme

Clydesdale Bank (as seller of the mortgage portfolio) may from time to time on an ongoing basis, subject to satisfaction of certain assignment conditions (including, without limitation, certain eligibility criteria and that Clydesdale Bank as seller make certain representations and warranties as to the nature and quality of the relevant mortgage loans) assign further mortgage loans and their related security (which is the security for the repayment of a mortgage loan, including the relevant mortgage) to the mortgages trustee to increase or maintain the size of the trust property. In particular, Clydesdale Bank may assign mortgage loans and their related security to the mortgages trustee in connection with an issue of notes by the Lanark Issuer, the proceeds of which are applied ultimately to fund the acquisition (by assignment) of such mortgage loans and their related security by the mortgages trustee or to maintain adequate over-collateralisation in the mortgages trust. In addition, Clydesdale Bank (as seller) is obliged to repurchase from the mortgages trustee any mortgage loan and its related security upon a material breach of the representations and warranties made by the seller in relation to the relevant mortgage loan which could have a material adverse effect on such mortgage loan and/or its related security (subject to a 28-day grace period). Further, Clydesdale Bank (as seller) is obliged to repurchase any mortgage loan which is the subject of a product switch and may repurchase any mortgage loan which is the subject of a further advance. Upon the occurrence of certain trigger events including, without limitation, the occurrence of an insolvency event in respect of Clydesdale Bank, Clydesdale Bank ceasing to act as servicer on the Lanark Programme and/or Clydesdale Bank failing to maintain certain minimum corporate credit ratings of Clydesdale Bank, Clydesdale Bank is required to notify borrowers of the mortgage loans which have been assigned to the mortgages trust of such assignment and execute and complete the transfer of legal title to the mortgages trustee of the mortgage loans in the mortgage portfolio and their related security.

Amendments and modifications of the Lanark Programme

Amendments and modifications are required to be made to the Lanark Programme and the transaction documents from time to time, including for example, to implement changes in law and regulation, to comply with changes in relevant rating agency criteria or rating methodology and to implement changes necessary or desirable for the general upkeep of the Lanark Programme.

In accordance with the relevant terms and conditions of the notes issued pursuant to the Lanark Programme and the transaction documents, amendments and modifications may be made to the Lanark Programme and the transaction documents either (i) with the consent of the note trustee, issuer security trustee and/or funding security trustee and without the consent of any noteholders of any series or secured creditors under the Lanark Programme in certain limited circumstances, including where such modification or amendment is, in the opinion of the note trustee, issuer security trustee and/or funding security trustee, not materially prejudicial to the interests of any noteholders of any series or secured creditors under the Lanark Programme or such amendment or modification is to correct a manifest error or is of a formal, minor or technical nature or is made to comply with mandatory provisions of law or (ii) with the consent and sanction of the noteholders. See "*Risk Factors – Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes*" above for further information.

The transaction documents relating to the Lanark Programme contain certain minimum rating requirements in relation to various transaction parties (including Clydesdale Bank) which require certain action to be taken if the ratings of those transaction parties (including Clydesdale Bank) fall below certain minimum levels. If the ratings of Clydesdale Bank were to fall below certain required minimum rating levels in respect of a transaction party, Clydesdale Bank may be replaced in that capacity under the Lanark Programme or may be required to take other action predetermined in the transaction documents. Such other action is typically that required by the rating agencies' rating criteria and is designed to mitigate against the future potential default or insolvency of that transaction party of such failure to maintain the relevant minimum required ratings. Minimum rating requirements under the Lanark Programme apply to Clydesdale Bank, inter alia, in its capacities as seller of the mortgage loans, servicer of the mortgage loans and collection account bank in respect of amounts received from borrowers under the mortgage loans. There could be a number of adverse consequences arising from the ratings of Clydesdale Bank falling below the relevant minimum required ratings, for example, if Clydesdale Bank's long term, unsecured, unsubordinated and unguaranteed debt obligation ratings were to fall below "BBB-" by S&P or Fitch or Clydesdale Bank's long term bank deposit rating were to fall below "Baa3" by Moody's, Clydesdale Bank could be required to notify borrowers of the assignment of Clydesdale Bank's interest in their mortgage loans to the mortgages trustee for the Lanark Programme. Other trigger events include being required to transfer the collection account away from Clydesdale Bank to a third-party and advise borrowers to make future payments and repayments under their mortgage loans to the new collection account and appoint a third-party back-up servicer and cash manager to the programme.

Notes outstanding

The table below summarises the notes outstanding under the Lanark Programme, as at the date hereof:

Series	Tranche	Legal Maturity Date	Step Up/Call Option Date	Original Balance	Rating (S&P/Moody's/ Fitch)
Series 2012-2	1A	Dec 2054	Feb 2016	$800,000,000	AAA/Aaa/AAA
Series 2012-2	2A	Dec 2054	Nov 2017	£525,000,000	AAA/Aaa/AAA
Series 2013-1	1A1	Dec 2054	Aug 2016	$300,000,000	AAA/Aaa/AAA
Series 2013-1	1A2	Dec 2054	Aug 2016	£350,000,000	AAA/Aaa/AAA
Series 2014-1	1A	Dec 2054	Aug 2017	€300,000,000	AAA/Aaa/AAA
Series 2014-1	2A	Dec 2054	Nov 2018	£350,000,000	AAA/Aaa/AAA
Series 2014-2	1A	Dec 2054	Aug 2018	€550,000,000	AAA/Aaa/AAA
Series 2014-2	2A	Dec 2054	Feb 2020	£275,000,000	AAA/Aaa/AAA
Series 2014-2	Z VFN	Dec 2054	N/A	£480,500,000	Unrated
Series 2015-1	1A	Dec 2054	Aug 2018	$300,000,000	AAA/Aaa/AAA
Series 2015-1	2A	Dec 2054	May 2021	€280,000,000	AAA/Aaa/AAA

17.2 ***Lannraig Buy-to-let Mortgage-Backed Master Trust Note Programme***

Description of the Lannraig Programme

On 19 November 2012 Lannraig Issuer, a special purpose vehicle, established the Lannraig Programme. The Lannraig Issuer's primary source of funds to make payments on the notes issued pursuant to the Lannraig Programme are primarily derived from payments pursuant to the Intercompany Loan Agreement entered into between the Lannraig Issuer and Lannraig Funding. Lannraig Funding pays amounts due under the Intercompany Loan Agreement principally from its share of the trust property which primarily comprises a portfolio of first ranking buy-to-let residential mortgage loans originated by Clydesdale Bank (and/or originated by YBHL and subsequently acquired by Clydesdale Bank) and, in each case, secured on properties located in England, Wales and Scotland. The mortgages trustee holds the mortgage portfolio on trust for Clydesdale Bank (in its capacity as seller of the mortgage portfolio) and Lannraig Funding. Neither the Lannraig Issuer nor the noteholders have any direct interest in the trust property, although the Lannraig Issuer will share in the benefit of a security interest created by Lannraig Funding over its share of the trust property. The Lannraig Issuer's primary asset is its rights under the Intercompany Loan Agreement and the related security created by Lannraig Funding.

All notes issued to date by the Lannraig Issuer have been admitted to the Official List and are admitted to trading on the regulated market of the LSE. However, pursuant to the terms of the Lannraig Programme, the Lannraig Issuer may also issue notes listed or traded on other regulated markets and/or unlisted notes. The maximum aggregate principal amount of all notes from time to time outstanding under the Lannraig Programme will not exceed £10 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the Lannraig Programme. All notes issued to date by the Lannraig Issuer pursuant to the Lannraig Programme have been retained by Clydesdale Bank and/or NAB since issuance.

The mortgage loans included in the mortgage portfolio consist exclusively of buy-to-let residential mortgage loans but otherwise consist of several different types of buy-to-let mortgage loans with a variety of characteristics relating to, among other things, calculation of interest and terms of repayment of principal.

Other than as set out above, the structure of the Lannraig Programme and the way that the Lannraig Programme operates is substantively and materially the same as the Lanark Programme including with respect to the status of the notes issued pursuant to the Lannraig Programme and recourse to CYBG Group, the ongoing obligations of CYBG Group under the Lannraig Programme, the process for making amendments and modifications to the Lannraig Programme and the transaction documents related thereto and the consequences of transaction parties (including Clydesdale Bank) failing to meet the various minimum rating requirements set out in the transaction documents. See further *Lanark Residential Mortgage – Backed Master Trust Note Programme* above.

Notes outstanding

The table below summarises the notes outstanding under the Lannraig Programme, as at the date hereof:

Series	Tranche	Legal Maturity Date	Step Up/Call Option Date	Original Balance	Rating (Moody's/ Fitch)
Series 2011-1	A	Dec 2061	Nov 2017	£670,000,000	Aaa/AAA
Series 2011-1	Z	Dec 2061	Nov 2017	£159,000,000	Unrated
Series 2012-1	A	Dec 2061	Nov 2018	£715,000,000	Aaa/AAA
Series 2012-1	Z	Dec 2061	Nov 2018	£ 55,000,000	Unrated

17.3 ***Clydesdale Bank PLC's Regulated Covered Bond Programme***

Description of the RCB Programme

On 1 December 2010 Clydesdale Bank, in its capacity as issuer, established the RCB Programme unconditionally and irrevocably guaranteed as to payments of interest and principal by Clydesdale Covered Bonds No.2 LLP (the "**CCB**"). Pursuant to the terms of the RCB Programme, Clydesdale Bank (in its capacity as issuer) is expected to make payments of principal and interest due on the covered bonds issued pursuant to the RCB Programme however, the CCB has guaranteed payments of interest and principal under the covered bonds pursuant to a guarantee which is secured over a residential mortgage loan portfolio and other assets of the CCB. Recourse to the CCB under its guarantee is limited to the mortgage loan portfolio and such other assets of the CCB. The CCB will be required to pay amounts due and payable in respect of the covered bonds under the guarantee following the occurrence of an issuer event of default and the service of an acceleration notice on Clydesdale Bank as issuer. At such time, the covered bonds will only be accelerated against the issuer and will not be accelerated against the CCB. In the event that an issuer event of default occurs and an acceleration notice is served on Clydesdale Bank as issuer in respect of a particular series of covered bonds, then all series of covered bonds then outstanding will cross-default and accelerate at the same time against the issuer, but will be subject to, and have the benefit of, payments made by the CCB under the guarantee. The guarantee granted by the CCB in respect of the covered bonds will, *inter alia*, be backed by the CCB's economic interest in the mortgage loan portfolio. The maximum aggregate principal amount of all covered bonds from time to time outstanding under the RCB Programme will not exceed €10 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the RCB Programme. As at the date hereof, all covered bonds issued by Clydesdale Bank pursuant to the RCB Programme have been admitted to the Official List and are admitted to trading on the regulated market of the LSE. However, under the terms of the RCB Programme, Clydesdale Bank may also issue covered bonds listed or traded on other regulated markets and/or unlisted covered bonds including, without limitation, *Namensschuldverschreibung* (or N covered bonds) which are privately placed, German law governed, registered covered bonds.

Underlying assets

The mortgage loan portfolio comprises first ranking residential mortgage loans (including buy-to-let mortgage loans) and their related security originated by Clydesdale Bank (and/or originated by YBHL and subsequently acquired by Clydesdale Bank) and, in each case, secured on residential properties located in England, Wales and Scotland.

Ongoing obligations of CYBG Group under the RCB Programme

In addition to its role as issuer, and consequently primary obligor, under the RCB Programme in respect of the covered bonds, Clydesdale Bank also acts in various capacities as seller, as service provider under the RCB Programme such as servicer of the mortgage loans in the mortgage portfolio, collection account bank, cash manager and an account bank. Clydesdale Bank is therefore subject to certain rights and obligations pursuant to the RCB Programme transaction documentation in each of these capacities. In addition, in respect of a number of these roles, the transaction documentation requires that a minimum credit rating is maintained by Clydesdale Bank and, if such credit rating is not maintained, certain actions may be required to be taken pursuant to the transaction documentation (for example, the transfer of such role to a third-party counterparty or obtaining a guarantee of such obligations) and/or certain amendments may need to be made to the transaction documentation. Failure to carry out such required actions may result in an issuer event of default occurring. In addition, Clydesdale Bank is a member of the CCB and, in certain circumstances, may also be required to make a capital contribution to the CCB either in cash or in kind to avoid an event of default. See "*Risk Factors – A downgrade in the credit rating of the Company or Clydesdale Bank, the UK banking sector or the UK Government may have an adverse effect on CYBG Group's business, results of operations, financial condition or prospects*".

Further, as at the date hereof, NAB also acts as a service provider in respect of the RCB Programme in capacities such as an account bank and swap provider. NAB is therefore also subject to certain rights and obligations pursuant to the RCB Programme transaction documentation in such capacities.

The mortgage loans and their related security are sold on an ongoing basis and from time to time by Clydesdale Bank (as seller) to the CCB in accordance with the terms of the RCB Programme, which requires the satisfaction of certain assignment conditions (including, without limitation, certain eligibility criteria and that Clydesdale Bank, as seller, make certain representations and warranties as to the nature and quality of the relevant mortgage loans). Under certain circumstances, Clydesdale Bank may elect to or shall be obliged to repurchase mortgage loans previously sold to the CCB, for example, in the event that Clydesdale Bank receives a notice from the CCB identifying that a mortgage loan in the mortgage portfolio did not materially comply with the representations and warranties as at the relevant transfer date (subject to the ability to remedy such breach of representation or warranty and certain grace periods) or in connection with a further issue of covered bonds. Further, under certain circumstances, the CCB may be obliged to sell a portion of the mortgage loan portfolio (subject to rights of pre-emption afforded to Clydesdale Bank) selected at random in order to ensure that there are sufficient principal receipts available to repay principal due and payable to covered bondholders. In addition, Clydesdale Bank is obliged to use reasonable efforts to transfer further mortgage loans to the CCB to ensure that the mortgage loan portfolio is in compliance with certain tests relating to the minimum over-collateralisation level of the RCB Programme. Upon the occurrence of certain trigger events including, without limitation, the occurrence of an insolvency event in respect of Clydesdale Bank, Clydesdale Bank ceasing to act as servicer on the RCB Programme and Clydesdale Bank failing to maintain certain minimum corporate ratings, Clydesdale Bank (in its capacity as seller) is required to notify borrowers of the mortgage loans which have been assigned to the CCB of such assignment and execute and complete the transfer of legal title to the CCB of the mortgage loans in the mortgage portfolio and their related security.

Regulatory obligations of Clydesdale Bank as issuer

Clydesdale Bank was admitted to the register of issuers on 1 December 2010 and the RCB Programme and the covered bonds issued under the Programme were admitted to the register of regulated covered bonds under the Regulated Covered Bonds Regulations 2008 (Statutory Instrument 2008/346) (as amended) (the "**RCB Regulations**"). The RCB Regulations implemented a new legislative framework for UK covered bonds intended to meet the requirements set out in Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the "**UCITS Directive**"). The RCB Regulations and the FCA's corresponding implementation provisions, set out in the Regulated Covered Bonds Sourcebook Instrument 2008 (the "**RCB Sourcebook**") impose certain ongoing obligations and liabilities on both Clydesdale Bank (as issuer) and the CCB (as owner of the asset pool) in relation to the maintenance and administration of the asset pool. The issuer must make arrangements with the owner to provide that, prior to the insolvency of the issuer: (i) a record is kept of each asset in the pool; (ii) that the asset pool is capable of covering all amounts due on the bond and sums required for the maintenance, administration and winding up of the asset pool; (iii) that there is timely payment of amounts due to the bondholder; and (iv) that the asset pool is of sufficient quality that, in the event of a failure of the issuer, there will be a low risk of default in the timely payment of amounts due to the bondholders. In addition, the RCB Regulations impose fixed minimum over-collateralisation requirements and fixed minimum coverage requirements whereby the total principal amounts outstanding on the mortgage assets constituting eligible property in the asset pool will be required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 per cent. and a minimum threshold will apply in respect of interest amounts such that the total amount of interest payable in the period of 12 months following any given date in respect of the eligible property in the asset pool will be required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. Further, the RCB Regulations and RCB Sourcebook impose various reporting requirements on issuers, for example, they are required to provide loan-level data to investors on a regular basis and notify the FCA of various matters (including any regulated covered bonds it issues, the composition of the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Pursuant to the RCB Regulations and RCB Sourcebook, the FCA will also perform certain tasks and have certain supervisory and enforcement powers in respect of the regulated covered bonds regime, including the authority to take certain actions in respect of the issuer and/or the CCB under the RCB Regulations. Such actions include directing the winding-up of the CCB, removing Clydesdale Bank from the register of issuers, directing the issuer and/or the CCB to take specified steps for the purposes of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the issuer or the CCB. Additionally, the FCA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). To date there is no example and/ or clarity as to how the FCA will exercise the discretionary powers that it has been given under the RCB Regulations. Any such enforcement actions by the FCA may restrict Clydesdale Bank's ability to transfer further mortgage loans to the mortgage loan portfolio thereby reducing the amounts available to pay covered bondholders under the RCB Programme. In addition, a winding-up of the CCB, prior to the occurrence of an issuer event of default and service of an acceleration notice on Clydesdale Bank may have an adverse effect on the ability of Clydesdale Bank to make payments under the covered bonds.

Amendments and modifications of the RCB Programme

Amendments and modifications are required to be made to the RCB Programme and the transaction documents from time to time, including for example, to implement changes in law and regulation (including amendments to the RCB Regulations), to comply with changes in relevant rating agency criteria or rating methodology and to implement changes necessary or desirable for the general upkeep of the RCB Programme.

In accordance with the relevant terms and conditions of the notes issued pursuant to the RCB Programme and the transaction documents, amendments and modifications may be made to the RCB Programme and the transaction documents either (a) with the consent of the bond trustee and/or security trustee and without the consent of any covered bondholders of any series or secured creditors under the RCB Programme in certain limited circumstances, including where such modification or amendment is, in the opinion of the bond trustee and/or the security trustee, not materially prejudicial to the interests of any covered bondholders of any series or secured creditors under the RCB Programme or such amendment or modification is to correct a manifest error or is of a formal, minor or technical nature or is made to comply with mandatory provisions of law; or (b) with the consent and sanction of the covered bondholders.

The transaction documents relating to the RCB Programme contain certain minimum rating requirements in relation to various transaction parties (including Clydesdale Bank) which require certain action to be taken if the ratings of those transaction parties (including Clydesdale Bank) fall below certain minimum levels. If the ratings of Clydesdale Bank were to fall below certain required minimum rating levels in respect of a transaction party, Clydesdale Bank may be replaced in that capacity under the RCB Programme or may be required to take other action predetermined in the transaction documents. Such other action is typically that required by the rating agencies' rating criteria and is designed to mitigate against the perceived risk to the transaction arising out of such failure to maintain the relevant minimum required ratings. Minimum rating requirements under the RCB Programme apply to Clydesdale Bank, *inter alia*, in its capacities as issuer of the covered bonds, seller of the mortgage loans, servicer of the mortgage loans and collection account bank in respect of amounts received from borrowers under the mortgage loans. There could be a number of adverse consequences arising from the ratings of Clydesdale Bank falling below the relevant minimum required ratings, for example, if Clydesdale Bank's long-term unsecured, unsubordinated and unguaranteed debt obligation rating was to fall below "BBB-" by Fitch or Clydesdale Bank's long term bank deposit rating were to fall below "Baa2" by Moody's, Clydesdale Bank could be required to notify borrowers of the assignment of Clydesdale Bank's interest in their mortgage loans to the CCB for the RCB Programme. Other trigger events include being required to transfer the collection account away from Clydesdale Bank to a third-party and advise borrowers to make future payments and repayments under their mortgage loans to the new collection account and appoint a third-party back-up servicer and cash manager to the programme.

See "*Risk Factors – Changes in rating agency criteria and/or a downgrade in the credit rating of Clydesdale Bank, CYBG Group's RMBS covered bonds or counterparties thereunder may adversely impact CYBG Group's secured funding programmes*" for further information.

Covered bonds outstanding

The table below summarises the covered bonds outstanding under the RCB Programme, as at the date hereof:

Series	Legal Maturity Date	Original Balance	Rating (Moody's/Fitch)
Series 2012-2	June 2026	£700,000,000	Aa1/AAA

18. MATERIAL CONTRACTS

Set out below is a summary of (a) each material contract (other than a contract in the ordinary course of business) to which any member of CYBG Group is a party, which has been entered into within the two years immediately preceding the date of this Prospectus; and (b) any other contract (other than a contract in the ordinary course of business) entered into by any member of CYBG Group which contains a provision under which any member of CYBG Group has any obligation or entitlement which is material to CYBG Group as at the date of this Prospectus or which is otherwise material to CYBG Group in relation to the Global Offer and the Demerger.

18.1 *Underwriting Agreement*

On 2 February 2016, the Company, the Directors, the Selling Shareholder and the Managers entered into the Underwriting Agreement pursuant to which each of the Managers has severally agreed, subject to certain exceptions, to procure purchasers for the Sale Shares.

Each Manager has further agreed, subject to certain exceptions, to the extent that it fails to procure purchasers for all of the Sale Shares, to purchase a fixed proportion of those Sale Shares itself at the Offer Price.

The Underwriting Agreement contains, among others, the following further provisions:

(a) Morgan Stanley is acting as Sponsor and Joint Global Co-ordinator in connection with the Global Offer; Morgan Stanley, Macquarie Capital and Merrill Lynch International are acting as Joint Global Co-ordinators and Joint Bookrunners; J.P. Morgan Cazenove is acting as Joint Bookrunner and RBC Capital Markets and Keefe, Bruyette & Woods, a Stifel Company, are acting as Co-Lead Managers.

(b) The Selling Shareholder has agreed, subject to certain conditions, to sell, at the Offer Price, the Sale Shares to be sold by it in connection with the Global Offer. The Sale Shares are being sold to certain institutional and professional investors in the UK and elsewhere outside the United States in reliance on Regulation S under the Securities Act and to QIBs in the United States in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(c) Morgan Stanley, as Stabilising Manager, has been granted the Over-allotment Option by the Selling Shareholder pursuant to which it may procure purchasers for or purchase up to 28,673,323 Over-allotment Shares at the Offer Price for the purposes of covering short positions arising from over-allocations, if any, in connection with the Global Offer and/or any sales of Sale Shares made during the Stabilisation Period. Any exercise of the Over-allotment Option may be settled by the Selling Shareholder in cash. Save as required by law or regulation, neither Morgan Stanley, as Stabilising Manager, nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer. The number of Over-allotment Shares to be sold pursuant to the Over-allotment Option, if any, will be determined not later than a period of 30 days, commencing from the date of commencement of conditional dealings in the Shares on the LSE.

(d) The Selling Shareholder has agreed to pay the Managers a base commission which, in aggregate, amounts to 2.25 per cent. of the Offer Price multiplied by the aggregate number of Sale Shares sold pursuant to the Global Offer (together with any Over-allotment Shares sold pursuant to any exercise of the Over-allotment Option), together with any applicable value added tax thereon.

(e) The Selling Shareholder has also agreed, in its absolute discretion, to pay a discretionary commission to some or all of the Managers of up to 0.25 per cent. of an amount equal to the Offer Price multiplied by the aggregate number of Sale Shares sold pursuant to the Global Offer (together with any Over-allotment Shares sold pursuant to any exercise of the Over-allotment Option), together with any applicable value added tax thereon, within 30 days after the completion of the Global Offer.

(f) The obligations of the parties pursuant to the Underwriting Agreement are subject to certain conditions, including, among others, the absence of any breach of representation or warranty under the Underwriting Agreement, the delivery of customary comfort packages, the Demerger becoming effective and Admission having occurred by not later than 8.00 a.m. on 8 February 2016 or such later time and/or date (not later than 17 February 2016) as the Joint Global Co-ordinators may agree with the Company. The Joint Global Co-ordinators shall be entitled to terminate the Underwriting Agreement in certain circumstances prior to Admission, including the occurrence of certain material changes in the condition (financial or otherwise) or prospects of the Company and/or CYBG Group and certain changes in financial, political or economic conditions.

(g) The Selling Shareholder has agreed to pay or cause to be paid (together with any applicable VAT) all costs, charges, fees and expenses of or arising in connection with, or incidental to, the Global Offer, which are estimated to amount to approximately £32 million in total.

(h) The estimated net proceeds receivable by the Selling Shareholder, after payment of commissions, expenses and applicable taxes, are expected to be £312.1 million assuming no exercise of the Over-allotment Option and £363.7 million assuming the Over-allotment Option is exercised in full.

(i) The Company, the Directors and the Selling Shareholder have given certain customary representations, warranties and undertakings to the Managers. The liabilities of the Directors and the Selling Shareholder are limited as to time and amount.

(j) The Company has given certain indemnities in a form which is typical for an agreement of this nature to the Managers, their affiliates and their respective directors, officers, partners and employees which, subject to certain exceptions, indemnify the Managers against, inter alia, claims made against them or losses incurred by them, in connection with the Global Offer.

(k) The parties to the Underwriting Agreement have given certain covenants to each other regarding compliance with laws and regulations affecting the making of the Global Offer in relevant jurisdictions.

Lock-up agreements pursuant to the Underwriting Agreement

(a) The Company has agreed that, subject to certain customary exceptions, during the period of 180 calendar days from the date of Admission, it will not, without the prior written consent (such consent not to be unreasonably withheld or delayed) of the Joint Global Co-ordinators, (as applicable) issue, lend, mortgage, assign, charge, offer, sell or contract to sell or otherwise dispose of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as the foregoing.

(b) The Selling Shareholder has agreed that, subject to certain customary exceptions, during the period of 90 calendar days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as the foregoing.

(c) The Directors have agreed that, subject to certain customary exceptions, during the period of 365 calendar days from the date of Admission, they will not, without the prior written consent of the Joint Global Co-ordinators, sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as the foregoing.

18.2 *Demerger Implementation Deed*

On 27 November 2015, the Company, CYBI, Clydesdale Bank and NAB entered into the demerger implementation deed ("**Demerger Implementation Deed**") which sets out the steps required to be taken by each of the Company and NAB to carry into effect (i) a scheme of arrangement under section 411 of the Corporations Act 2001 of Australia between NAB and NAB Shareholders ("**Scheme**"), (ii) the reduction in the capital of NAB in accordance with the terms of a resolution approved by NAB

Shareholders in a general meeting ("**NAB Capital Reduction**"), (iii) the Global Offer and other steps necessary to give effect to the proposed demerger of the Company from NAB through the implementation of the internal restructure to be undertaken by NAB prior to the Demerger Date, Scheme, NAB Capital Reduction and the Global Offer ("**Demerger**") as described in the scheme booklet for the demerger of the Company by NAB ("**Scheme Booklet**") on the Demerger Date.

The key terms of the Demerger Implementation Deed are as follows:

(a) *Obligations of NAB*

NAB agrees to take all steps reasonably required to give effect to the Demerger, including:

- convening the meeting of NAB Shareholders in relation to the Scheme in accordance with the orders of the Supreme Court of Victoria and convening the meeting of NAB Shareholders in relation to the NAB Capital Reduction to be held on the same day;
- assisting the Company with the preparation of the application to the ASX for the ASX listing of the Company as an ASX Foreign Exempt Listing and for official quotation of the CDIs on the ASX;
- assisting the Company with the preparation of the Prospectus, and taking such actions as may be necessary to implement the Global Offer;
- until the Demerger Date, using its reasonable endeavours to ensure the satisfaction of any reasonable requirements of the FCA, LSE or ASX in relation to the London Stock Exchange listing of the Company or the ASX listing of the Company (as applicable), that the FCA and the London Stock Exchange approve the London Stock Exchange listing of the Company and the ASX approves the ASX listing of the Company, and that trading in the Shares commences on the London Stock Exchange on the date of publication of the Prospectus and that trading in CDIs commences on the ASX following the Scheme Effective Date;
- if the NAB Capital Reduction and Scheme are approved, applying to the Supreme Court of Victoria for approval of the Scheme, and (if the Scheme is approved) lodging the Court order with ASIC; and
- if the Scheme becomes effective:
    - resolving to effect the NAB Capital Reduction; and
    - on the Demerger Date:
        - transferring the CYBI shares to the Company in accordance with the Sale and Purchase Agreement; and
        - undertaking the NAB Capital Reduction, doing everything necessary for the entitlement of each Scheme Participant to be satisfied in accordance with the terms of the Scheme and doing everything reasonably necessary to effect the distribution of Shares or CDIs to Scheme Participants (or the Sale Agent in respect of Sale Facility Shareholders) and the transfer of Shares sold under the Global Offer to the Managers.

(b) *Obligations of the Company and CYBI*

The Company and CYBI each agrees to take all steps reasonably required to give effect to the Demerger, including:

- preparing the Prospectus, including by ensuring its compliance with applicable laws and regulations, and lodging the Prospectus;
- preparing and lodging the application for the listing of Shares in the premium listing segment of the UKLA Official List and for such shares to be admitted to trading on the London Stock Exchange's main market for securities, and preparing and lodging all other relevant documents required for the purpose of admission;
- preparing and lodging the application for the ASX listing of the Company as an ASX Foreign Exempt Listing and for official quotation of the CDIs on the ASX;

- until the Demerger Date, using its best endeavours to ensure that the satisfaction of any FCA, LSE or ASX requirements in relation to the London Stock Exchange listing or the ASX listing of the Company, that the FCA and London Stock Exchange approve the London Stock Exchange listing of the Company, and that conditional trading in Shares commences on the London Stock Exchange on the date of publication of the Prospectus and that trading on a deferred settlement basis in the CDIs commences on the ASX following the Scheme Effective Date;
- taking such action requested by NAB as may be necessary in order to implement the Global Offer; and
- if the Scheme becomes effective:
  - on (or, where applicable, as soon as practicable following) the Demerger Date, doing everything necessary for the entitlement of each Scheme Participant to be satisfied in accordance with the terms of the Scheme and doing everything reasonably necessary to effect the distribution of Shares or CDIs to Scheme Participants or the Authorised Nominee (as applicable) (or the Sale Agent in respect of Sale Facility Shareholders); and
  - on, or as soon as practicable following, the Demerger Date, registering or causing to be registered the Scheme Participants, the Authorised Nominee and the Sale Agent as holders of Shares or CDIs (as applicable).

(c) *Other provisions*

The Demerger Implementation Deed also contains provisions in respect of:

- following the Demerger Date:
  - obligations on NAB and the Company to each procure that the Sale Agent sells the CYBG Securities referable to Sale Facility Shareholders and pays the proceeds of that sale in accordance with the terms of the Sale Facility and the Scheme; and
  - obligations on the Company to forward to Scheme Participants (or the Authorised Nominee in respect of CDI Holders or Sale Agent in respect of Sale Facility Shareholders) CREST account statements, holding statements or share certificates for Shares or CDIs (as applicable) to which they are entitled.
- general obligations for each of NAB and the Company to do all things necessary to implement and give effect to the Demerger Implementation Deed, the Scheme, the Demerger, the listings and the Global Offer, and for each party to assist the other to complete the obligations imposed by the Demerger Implementation Deed;
- the rights of each of NAB and the Company to terminate the Demerger Implementation Deed if the Scheme has not become effective on or before the 31 August 2016, or such later date as is agreed by NAB and the Company;
- each of NAB and CYBG Group, preparing and entering into agreements at or prior to the Demerger, which are necessary to allow the repurchase of existing CYBG Group Additional Tier 1 Securities and Tier 2 Notes held by NAB and the issuance of New AT1 Notes and New Tier 2 Notes by the Company on the Demerger Date, in the case of New AT1 Notes, subject to the concurrent exercise of the options granted by NAB in CYBG Group's favour and the preparation of listing documents for the New AT1 Notes and New Tier 2 Notes to enable the listing of such securities on the official lists of the Irish Stock Exchange and UKLA, respectively.

18.3 ***Demerger Deed***

On 27 November 2015, the Company and NAB entered into the demerger deed ("**Demerger Deed**") to facilitate the orderly separation of CYBG Group from NAB and the transition and emergence of CYBG Group as an independently owned corporate group, in accordance with the fundamental Demerger Principle.

The key terms of the Demerger Deed are as follows:

Rights against the other party

The parties agree that the Demerger and transactions giving effect to the Demerger will not give rise to any rights or obligations of a party (or any member of its group) as against the other party (or any member of its group) except those expressly contained in the Demerger Deed, the transaction documents or any other agreement entered into between the parties after the date of the Demerger Deed.

To the extent permitted by law, and except as otherwise provided in the Demerger Deed, both parties (on their own behalf and on behalf of their group) release the other (and their group) from any liability arising directly or indirectly from or in respect of the Demerger (including the Scheme and the NAB Capital Reduction), Admission, the Global Offer or the operation of the post-Demerger businesses or former businesses, except as provided in the Demerger Deed and the transaction documents.

Indemnities

To the extent permitted by law, both parties indemnify the other against claims brought by their respective group entities in relation to conduct covered by the above releases, except as provided in the Demerger Deed and the transaction documents or any other agreement entered into between the parties after the date of the Demerger Deed.

The parties also agree to indemnify each other against, among other things, liabilities arising from successful claims in respect of the Scheme Booklet, this Prospectus, marketing materials and the listing memoranda. In the case of NAB, the indemnity only applies to the extent that the failure or breach is caused by or arises in relation to, NAB Information, but does not apply where the failure or breach is or was the result of any wilful misconduct, negligent act or omission or fraud of the Company. In the case of the Company, the indemnity only applies to the extent that the failure or breach is caused by or arises in relation to, the Company Information, but does not apply where the failure or breach is or was the result of any wilful misconduct, negligent act or omission or fraud of NAB.

Demerger costs

Both parties agree to use best endeavours to proactively manage Demerger costs to ensure that (as far as reasonably practicable) costs are kept within the Demerger budget agreed by the parties. The parties have agreed a Demerger budget allocating all material known and reasonably anticipated Demerger costs between them, and procedures to determine new or additional costs not provided for in the Demerger budget. Both parties take responsibility for the Demerger costs allocated to them and NAB indemnifies the Company in relation to the Demerger costs for which they are responsible.

Treatment of required assets

The Demerger Deed contains a regime which provides for the:

- transfer or grant of assets primarily relating to the NAB Group (post-Demerger) to the NAB Group; and
- transfer or grant of assets primarily relating to CYBG Group to the Company,

in certain circumstances where either party identifies such assets in the period of 24 months from completion of the Demerger, and where such assets were either transferred by mistake or not transferred to the correct group member, if the parties agree that an asset should be transferred, they must agree in good faith the terms of the transfer of that asset and the fair transfer value of that asset (having regard to certain factors specified in the Demerger Deed).

Contracts

The parties have agreed to use reasonable endeavours to procure that:

- they obtain or retain the full benefit and all risks and liabilities of contracts exclusively relating to their business; and
- shared contracts are separated to allow both groups to continue to benefit from them.

Subject to certain limitations, NAB and the Company each agree to indemnify, and must procure that their group members indemnify, each other and each other's groups for any liabilities arising, directly or indirectly, under or in connection with, contracts assigned, novated or separated.

Intellectual property

The parties agree to do all things reasonably necessary to effect the transfer or assignment of any names (e.g. for the Company, "Clydesdale") to the relevant party prior to completion of the Demerger Deed, and all other things reasonably requested by the other party to assist them to perfect their interest in the relevant names.

Generally, if other intellectual property was acquired or developed primarily for the benefit of:

- the CYBG Group business, then the relevant CYBG Group entity will own that intellectual property; or
- the NAB Group business (post-Demerger), then the relevant NAB Group entity will own that intellectual property.

The parties grant to each other a licence to use copyright in certain documents (e.g. manuals and policies) for the purpose of conducting the post-Demerger businesses. Subject to certain limitations, the parties release each other from liabilities arising in respect of intellectual property developed or procured for potential application within the other party's business.

Business Liabilities

Consistent with the Demerger Principle, and subject to the transaction documents, both parties accept responsibility for business liabilities of their business that remain with, or are incurred by, any member of the other party's group following completion. Both parties indemnify the other against any such liability.

Litigation

The Demerger Deed provides for the ongoing management of existing litigation matters and the management of claims arising after completion of the Demerger Deed.

Existing litigation matters (except for certain insurance claims) of CYBG Group will be managed by CYBG Group, at its cost. Existing litigation matters of NAB will be managed by NAB, at its cost. Joint litigation matters are to be conducted by the party with primary responsibility for the conduct of the matter, in accordance with agreed principles (e.g. in relation to keeping the other party fully informed).

The parties will each be responsible for the management of claims brought against them after completion of the Demerger, except in certain circumstances where the subject matter of the claim brought against one party relates to the business or assets of the other party, or the claim is one in respect of which an indemnity has been provided by the other party.

Certain allegations and claims are excluded from the above regime due to the nature of the matter (e.g. allegations of fraud, dishonesty or wilful concealment).

The parties acknowledge that, in accordance with the Demerger Principle, they do not have a right to make a claim against the other party in respect of a liability arising in connection with existing litigation, except as provided in the Demerger Deed, or any other transaction document. Each party provides a reciprocal litigation indemnity in relation to existing and joint litigation matters, and other claims brought to the extent they relate to their former or post-Demerger business.

Employees

Subject to certain limited exceptions, each party agrees to be responsible for any liabilities incurred in relation to their employees where such liabilities are incurred by the other party (except for bonuses payable to their employees who have worked for the group during FY16). Each party provides a reciprocal indemnity in relation to such liabilities.

Each party has also agreed not to make offers of employment to senior employees of the other party in the 12 months following completion of the Demerger.

The Demerger Deed also provides for agreement between the parties in relation to employee incentives, superannuation and pension arrangements, including that:

- the parties will continue to maintain the existing arrangements in relation to NAB Shares and Performance Rights granted to CYBG Group employees prior to completion of the Demerger under the NAB employee equity plans until such time as such NAB Shares and Performance Rights have vested or are no longer able to vest in accordance with their terms;
- on and from completion of the Demerger:
    - other than any contributions or other amounts required to be paid to Clydesdale Bank pension schemes, NAB is responsible for making all superannuation or pension contributions in respect of any NAB employee (in that capacity); and
    - the Company is responsible for making or procuring that another member of CYBG Group makes all superannuation or pension contributions in respect of any CYBG Group employee (in that capacity);
- similarly, if any CYBG Group employee is a member of a superannuation plan offered by NAB, NAB and CYBG Group will co-operate to enable CYBG Group and the relevant CYBG Group employees to cease to participate in that plan with effect on and from completion of the Demerger; and
- each party agrees to be responsible for (and indemnifies the other party for) all claims made against the other party by any employees of the first party (or any trustee or administrator of the plan on their behalf), and any liability incurred by the other party arising out of, any superannuation plan offered by the other party as it applies in relation to any employee of the first party in respect of the period on and from completion of the Demerger.

Insurance

NAB agrees to maintain insurance in respect of the CYBG Group business, up to completion of the Demerger. CYBG Group agrees to maintain insurance on and from completion of the Demerger in accordance with ordinary practice for a business like the CYBG Group business.

NAB also agrees to maintain until completion of the Demerger (i) directors and officers insurance for each NAB Group entity and CYBG Group entity and their respective directors and officers in office at any time during the 7 years before completion of the Demerger; (ii) public offering of securities insurance for each CYBG Group entity and each CYBG Group director and officer named in this Prospectus and must maintain such public offering of securities insurance for a period of no less than 7 years; and (iii) run-off crime and professional indemnity insurance for a period of no less than 7 years. NAB must also ensure that run-off cover which provides similar coverage to the terms and limits as the current directors and officers insurance is maintained for not less than 7 years after completion of the Demerger for the benefit of each covered director and officer in respect of acts or omissions occurring on or before completion of the Demerger.

Ongoing treasury arrangements

NAB and CYBG Group are party to certain capital and derivative arrangements, (including the CYBG Group's existing Additional Tier 1 Securities and Tier 2 Notes) under which (among other things) NAB has provided funding to CYBG Group and has acted as a swap counterparty for CYBG Group. NAB is also intending to provide a third-party clearing service to CYBG Group for central clearing of derivatives transactions. In the Demerger Deed, the parties have provided for agreed arrangements as to how those treasury arrangements will be dealt with post-completion of the Demerger.

In connection with the issuance by the Company of the New AT1 Notes and the New Tier 2 Notes, it is intended that a listing document for each new instrument will be approved by the relevant authority. The Company will take responsibility for the information contained therein in accordance with the applicable liability regime.

Access to records and assistance

The Demerger Deed requires each party (subject to certain limitations) to deliver to or grant the other party access to all records which exclusively relate to the business of the other party, and specified records connected with or relevant to that party's business, in accordance with the regime outlined in the Demerger Deed.

The parties will use reasonable endeavours to assist each other in relation to the preparation of their respective financial statements and regulatory reporting for the financial period (or regulatory reporting period) during which the Demerger Date occurs and any uncompleted financial statements for any earlier financial periods.

Each party provides an indemnity and release with respect to claims and liabilities arising as a result of the transfer of records and the information in those records to the other party, unless the claim or liability arises in relation to certain excluded records, the Transitional Services Agreements or a breach of a transaction document.

Tax

Generally, all taxes arising in relation to the CYBG Group business or the NAB Group business (after the Demerger) will be borne by the person that is principally liable for the tax under the relevant law. Where appropriate, each party provides reciprocal releases and indemnities to the other party in relation to taxes levied or imposed on them (other than taxes provided for in the agreed Demerger budget or the terms of any transaction document). NAB will bear the cost of the taxes arising directly from the Demerger or the Global Offer.

Indemnity for breach of any Transaction Document

NAB and the Company agree, subject to other provisions in the transaction documents or the Demerger Deed, to indemnify each group entity of the other party against any liability to the extent incurred in connection with a breach by a CYBG Group entity or a NAB Group entity (respectively) of the Demerger Deed or a transaction document.

Relevant Conduct Matters

The Demerger Deed provides that the Conduct Indemnity Deed applies in respect of Relevant Conduct Matters. For a summary of the Capped Indemnity see: Part 2: "*Information on CYBG Group – Conduct*".

Arrangements between NAB and CYBG Group after separation and intentions of NAB and the Company to further separate capital relationship

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into certain arrangements which, if given effect to, would effectively replace NAB's interest in CYBG Group's existing Additional Tier 1 capital instruments and Tier 2 notes, with the New AT1 Notes and the New Tier 2 Notes to be issued by the Company on the Demerger Date and initially held by NAB.

The repurchase of the existing Additional Tier 1 capital instruments and issue of the New AT1 Notes are subject to options (to be exercised concurrently) in CYBG Group's favour, whereby CYBG Group has the right, but not the obligation, to repurchase the existing Additional Tier 1 capital instruments from NAB and to issue the New AT1 Notes to NAB on the Demerger Date. Should CYBG Group fail to exercise these options, then the existing Additional Tier 1 capital instruments will continue to be owned by NAB. The repurchase of the existing Tier 2 notes will occur on the Demerger Date, immediately after, and subject to, issuing the New Tier 2 Notes. These transactions will be conducted on market terms, with pricing agreed and terms and conditions substantially agreed by NAB and CYBG Group on 4 November 2015 (in the case of the New AT1 Notes, subject to the exercise of the options). The effect of these arrangements is intended to allow CYBG Group to optimise its regulatory position in respect of its issuances of capital securities and to provide a single issuing entity for CYBG Group's capital securities following the Demerger. It is intended that the New AT1 Notes and the New Tier 2 Notes will be listed on issue (or shortly thereafter). In relation to the listing of the Company's New AT1 Notes, listing particulars are expected to be approved by the Irish Stock Exchange for admission of the New AT1 Notes to listing on the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange and the Company will take responsibility for the information contained therein in accordance with the applicable liability regime. In relation to the listing of the Company's New Tier 2 Notes, a prospectus is expected to be approved by the UKLA as a prospectus issued in compliance with the Prospectus Directive for admission of the New Tier 2 Notes to listing on the official list of the UKLA and to trading on the regulated market of the London Stock Exchange. The Company will take responsibility for the information contained therein in accordance with the requirements of the Prospectus Rules.

Following the Demerger and Admission, NAB intends to re-market and sell the New AT1 Notes and the New Tier 2 Notes to third-party investors. NAB and the Company have agreed pursuant to the Demerger Deed, that the Company will assist NAB in the re-marketing and sale of any of its capital instruments, including the New AT1 Notes and Tier 2 Notes. The Company has agreed to provide sufficient skilled resources to perform a variety of tasks to assist NAB in this process including engagement with regulators, the preparation of required documentation, participation in marketing roadshows and providing such other assistance as may be considered necessary. In particular, the Company will be required to prepare an offering document in connection with any remarketing of any capital instruments of CYBG Group held by NAB (including the New AT1 Notes and the New Tier 2 Notes) and the Company will take responsibility for the information contained therein.

In order to facilitate the remarketing of any capital instruments of CYBG Group held by NAB (including the New AT1 Notes and the New Tier 2 Notes), it is intended that the Company will enter into purchase agreements with NAB and the managers, prior to Admission, pursuant to which it will also provide certain market standard representations and warranties and indemnities to NAB and the managers.

Any remarketing of the New AT1 Notes and the New Tier 2 Notes will be carried out pursuant to the Demerger Deed and the purchase agreements, all of which have been or are intended to be entered into before or at Demerger and prior to the Admission, and consequently the related party transactions rules contained in the Listing Rules will not be applicable to the remarketing.

Other

The Demerger Deed also contains confidentiality, dispute resolution and other general provisions.

18.4 ***Deed Poll***

On 27 November 2015, the Company entered into a deed poll in favour of Scheme Participants and CDI Holders ("**Deed Poll**") under which the Company has undertaken to take the steps to be performed by it under the Scheme, including (through the Sponsor as necessary) applying to the FCA and the London Stock Exchange for Admission and to the ASX for the admission of the Company to the Official List of the ASX as an ASX Foreign Exempt Listing and for official quotation of CDIs on the ASX, issuing the CDIs and registering the transfer of Shares or CDIs to Scheme Participants, the Authorised Nominee or to the Sale Agent in respect of Sale Facility Shareholders as contemplated by the Scheme.

The Deed Poll also provides that the Company issues the CDIs on and subject to the terms of that deed poll. A person becoming a CDI Holder by so doing agrees to take each CDI subject to, and be bound by, the terms of the Deed Poll.

Subject to the conditions of the Deed Poll, as a fundamental and inseparable condition of holding each CDI and the benefit of the Deed Poll, each CDI Holder acknowledges and agrees under the Deed Poll that any rights it has in respect of each Share the subject of each CDI held by it are subject to the exercise by any Relevant Resolution Authority of a Resolution Power and that it agrees with and is bound by the Resolution Powers provisions contained in the Articles.

18.5 ***Transitional Services Agreement***

Overview of agreement

On 29 January 2016 Clydesdale Bank and NAB entered into a transitional services agreement ("**TSA**"). Under the TSA, NAB has agreed to provide or procure the provision of certain transitional services to CYBG Group for an agreed term following implementation of the Demerger (subject to extension rights in accordance with the terms of the agreement). The services to be provided under the TSA are described in Part 2 "*Information on CYBG Group – Relationship with NAB*". The TSA will continue until the date on which the last service term expires or is terminated in accordance with the terms of the agreement.

Overview of terms

NAB is bound to provide or procure the provision of the services to specified service standards or service levels, and must ensure that in performing the services it complies with applicable law and that the services are provided by reasonably skilled and experienced individuals. In certain circumstances, CYBG Group can also request that NAB provide services that are incidental to those provided under the agreement or additional services to those specified under the TSA. To the extent that the services are to be provided by or otherwise rely on third parties, CYBG Group must ensure it complies with any relevant terms of third-party agreements relating to the provision of that service which have been disclosed or notified to it by NAB.

CYBG Group is obliged to pay fees for each service calculated in accordance with the terms of the agreement. The fees include service charges from NAB along with any third-party costs associated with the provision of the services.

The parties will agree a migration plan in relation to each TSA service, which is designed to ensure that the service can be transitioned to CYBG Group or to a third-party by the end of the relevant transitional service term. The parties must use best endeavours to complete migration of each service in accordance with the agreed migration plan prior to expiry of that service term for that service.

Where CYBG Group reasonably concludes that it will not, or there is a material risk that it will not, complete migration of a service before the end of the service term, CYBG Group may notify NAB that it wishes to extend the term in respect of that service. In that notice CYBG Group is required to specify, at the end of the extended service term, the earliest date by which CYBG Group reasonably and in good faith considers that it will be able to complete migration of the relevant service. On receipt of valid notice, NAB and CYBG Group will cooperate in good faith to agree any amendments required to the migration plan during the proposed extension to the service term. Unless migration has not occurred due to an act or omission of NAB, the fees for an extended service will increase by a prescribed percentage during the extended service term, and may do so on more than one occasion depending on the length of that extended term.

Both parties may request changes to the agreement, and must negotiate such changes reasonably. However, subject to the below neither party is required to agree to any such requested change.

NAB may require (at its own cost) that a change be made to the TSA, including the scope of the services, provided that: (i) such change is a consequence of a wider change being made within NAB or a necessary system or process change to enable NAB to operate its systems during the term of the agreement in a manner consistent with its business requirements or good practice and in a manner that ensures that NAB complies with applicable law; (ii) any refusal to implement the change would adversely impact NAB or any member of its group; and (iii) such change will not have a material impact on the service levels under the TSA, narrow the scope of any service, or cause CYBG Group or any service recipient to be in breach of law or incur additional costs or expenses.

If a party becomes aware of a regulatory change which necessitates or will necessitate a modification to the services, they must notify the other party. Both parties must comply with regulatory changes applicable to the other party and permit necessary changes to the provision of services in order to achieve this. In the case of a regulatory change applying only to a member of CYBG Group, CYBG Group shall bear any reasonable costs and expenses relating to that regulatory change. In the case of a regulatory change applying only to NAB Group, NAB shall bear all reasonable costs in relation to that regulatory change.

Each party will allow representatives of the other party to access its IT systems and business data, to the extent necessary to enable provision and receipt of services under the TSA. Access is subject to any reasonable procedures or measures intended to protect the IT systems determined by the other party, to prevent any compromise of the security of IT systems, data or confidential information. Each party may also terminate access or remove any representative of the other party if they do not follow its reasonable directions and policies and procedures.

Both parties are bound by confidentiality obligations, which are subject to usual exceptions (e.g. where the other party provides prior written consent). Each party will agree not to use information disclosed or generated pursuant to the TSA which is not public or otherwise generally available and is of a kind such that a person who has that information would be prohibited or restricted from using it to deal in Shares or CDIs (together "**CYBG Securities**") under applicable insider dealing, market abuse or similar laws, or to use or disclose any such information in a way that amounts to market abuse under applicable insider dealing, market abuse or similar laws.

Subject to certain conventional exceptions (e.g. in instances of fraud or wilful misconduct) where both parties' liability is uncapped, the maximum liability of NAB to CYBG Group in relation to the TSA is capped at the greater of £30 million or 200 per cent. of the fees paid in the first year of the contract and the maximum liability of CYBG Group to NAB in relation to the TSA is capped at the greater of

£20 million or 200 per cent. of the fees paid in the first year of the contract. To the extent possible, CYBG Group must give NAB a reasonable opportunity to remedy any breach due to a failure by NAB to provide services in accordance with the TSA before taking any action against NAB. Liability is excluded for NAB to the extent the liability is caused by a failure by CYBG Group to perform its obligations or a failure of a third-party service provider. If a third-party service provider's breach adversely affects the provision of services, CYBG Group may request NAB to enforce the relevant third-party agreement; however, NAB shall not be required to take such action unless (i) CYBG Group has suffered loss, or reasonably estimates that it will suffer loss, in excess of £25,000 as a result of the third-party breach, and (ii) NAB considers, acting reasonably and in good faith and having taken the advice of external legal counsel, that there are reasonable prospects of such action resulting in the successful recovery of losses, and (iii) NAB considers acting reasonably and in good faith and having regard to the interests of CYBG Group, that taking such action would not be materially contrary to the interests of the NAB Group in connection with the relationship between the NAB Group and the relevant third-party service provider. In the event NAB decides not to enforce a third-party agreement on the basis of sub-sections (i) and (iii) in the previous sentence, the TSA includes a process for the parties to agree a reasonable "Compensation Payment" for CYBG Group.

There is flexibility for CYBG Group to terminate a TSA service at any time by providing NAB with due notice. Subject to the below, both parties may terminate the TSA or a service if the other is insolvent, or alternatively, if the other is in material breach of the TSA, and if the breach is capable of remedy, it is not remedied within a specified time. However, NAB may only exercise such termination rights where the Company is not in compliance with its payment obligations under the TSA and it has been given permission to terminate by an appropriate government agency.

The agreement provides for NAB to be bound by the exercise of powers by the Bank of England or other Relevant Resolution Authority in relation to CYBG Group, and for the services to continue to be provided during the period of any resolution action (whether to the relevant service recipient or to an entity which becomes the owner of that service recipient as the result of such resolution action).

18.6 *Reverse Transitional Services Agreement*

Overview of agreement

On 29 January 2016 Clydesdale Bank and NAB entered into a reverse transitional services agreement ("**Reverse Transitional Services Agreement**"). Each of the transitional arrangements agreed between NAB and Clydesdale Bank under the Reverse Transitional Services Agreement will be accompanied by a plan to migrate from the transitional arrangement to a NAB standalone solution within an agreed timeframe. It is intended that CYBG Group will no longer be providing transitional services to NAB by 31 December 2018. The transitional services that are proposed to be provided by CYBG Group to support NAB's London branch (with the exception of the CRE business) are limited to technology infrastructure services including hosting, data centre and network connectivity services in the UK.

Overview of terms

The services under the Reverse Transitional Services Agreement will be provided on terms largely equivalent to those included in the Transitional Services Agreement governing the provision of services to the Company by NAB. In particular, the Company is bound to provide the services to specified service standards or service levels, and must ensure that when performing the services it complies with applicable laws and that the services are provided by reasonably skilled and experienced individuals. NAB is obliged to pay fees for each service calculated in accordance with the terms of the agreement. The fees include service charges from the Company along with any third-party costs associated with the provision of the services.

18.7 *Conduct Indemnity Deed*

On 2 December 2015, NAB and the Company entered into the Conduct Indemnity Deed pursuant to which NAB agreed, subject to certain limitations, to provide the Company with indemnity protection in respect of certain historic conduct issues, which is described in further detail in Part 2: "*Information on CYBG Group – Conduct*".

18.8 Sale and Purchase Agreement

On 27 November 2015, NAB and the Company entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") in connection with the Demerger, pursuant to which NAB has agreed to sell the entire issued and to be issued share capital of CYBI in consideration for the issue of new ordinary shares in the Company. Under the terms of the Sale and Purchase Agreement, the Company will, on the Demerger Date, issue to NAB: (i) 659,486,442 new Shares, for NAB to hold as nominee and bare trustee for the NAB Shareholders or the Sale Agent (as applicable) (the "**NAB Shareholder CYBG Shares**"); and (ii) 219,788,814 new Shares for NAB to hold as legal and beneficial owner for itself and which will form the Shares to be sold as part of the Global Offer.

In accordance with the terms of the Scheme, shortly after issue of the NAB Shareholder CYBG Shares to NAB, NAB will transfer the legal title to such shares to those NAB Shareholders who will receive Shares under the terms of the Scheme, the Authorised Nominee, NATL and the Sale Agent in accordance with the terms of the Scheme.

Accordingly, following implementation of the Demerger, 75 per cent. of the issued share capital of the Company will be held by or for the benefit of NAB Shareholders and the Sale Agent and the remaining 25 per cent. will be held by NAB to be sold in the Global Offer, or if the Global Offer does not proceed or does not proceed in full, will be retained by NAB.

Further, it is a term of the Sale and Purchase Agreement that simultaneously with the transfer of the shares in CYBI to NAB, NAB will, pursuant to the Conduct Indemnity Deed, provide the Capped Indemnity and will provide an indemnity in favour of the Company in respect of certain taxes which arise to the Company or a member of CYBG Group in connection with a payment made under the Capped Indemnity or the application of such payment in accordance with the Conduct Indemnity Deed. A summary of the terms of the Conduct Indemnity Deed is provided in Part 2: "*Information on CYBG Group — Conduct*".

18.9 Insurance Intermediary Business Sale and Purchase Agreement

NAB and Clydesdale Bank entered into a sale and purchase agreement on 30 September 2015. Pursuant to the sale and purchase agreement, NAB agreed to sell its entire shareholding in CYB Intermediaries Holdings Limited ("**CYBIHL**") for a consideration of £4.1 million. Completion was conditional on the FCA confirming that there was no objection to Clydesdale Bank, NEL or CYBI becoming a controller of CYB Intermediaries Limited ("**CYBIL**"). The provisional consideration was adjusted post completion to take account of the cash standing to the credit of CYBIL at the date of the transfer, with the total consideration being £4,144,942.74.

NAB is liable under the sale and purchase agreement for any claim under the warranties for a period of 12 months from the date of signing. There is no liability in respect of any claim under the warranties unless the liability in respect of that claim, when aggregated with liability in respect of all other claims, exceeds AUD 250,000. Total liability is limited to the amount of the final consideration paid.

18.10 Legacy CRE portfolio agreements

In 2012, CYBG Group transferred substantially all of its CRE loan portfolio to NAB. The agreements entered into in connection with that transfer remain in place, including in respect of the ongoing provision of services in connection with the transfer.

Business sale agreement

This agreement provided for the transfer of the CRE loan portfolio, and included certain warranties and indemnities from CYBG Group in favour of NAB, which remain in force. Any liability under these warranties and indemnities in respect of conduct related issues arising in the CRE portfolio prior to its sale by CYBG Group in 2012 falls within the scope of the Conduct Indemnity Deed to the same extent that liability for a non-CRE related conduct issue would do so. Discussions are ongoing between NAB and CYBG Group about whether CYBG Group may repurchase specific CRE loans (up to approximately £250 million) within the legacy CRE portfolio previously disposed of to NAB where it may be appropriate for the customer relationship or to enable any disputes to be retained and managed directly by CYBG Group. Should any such repurchases proceed then NAB and CYBG Group currently intend that the relevant transfer agreements will be entered into and completed over the 12 months following the Demerger.

The original transfer under the business sale agreement took place by way of a transfer of the beneficial ownership of the relevant loans and related assets. CYBG Group remains the lender of record for the residual portfolio owned by NAB, and the original transfer agreement contains an indemnity from NAB to CYBG Group in respect of liabilities incurred following completion of the transfer.

Services agreement

CYBG Group has provided certain services to NAB, and NAB has provided certain services to CYBG Group, since the transfer of the CRE loan portfolio to NAB in October 2012 pursuant to a CRE services agreement. Those services will continue to be provided for the life of the CRE loan portfolio under this services agreement.

The services provided by CYBG Group to NAB include risk reporting, regulatory reporting on credit RWAs, the calculation of loan loss provisioning, inputs into the calculation of operational risk capital and economic capital, access to a number of NAB's operational risk systems, payroll management and processing, access to various systems and third-party solutions including customer information, know your client and anti-money laundering reporting, financial management information, operational services and support for portfolio sales to third-party purchasers. In addition, NAB provides certain services to CYBG Group, primarily management of its residual exposures to borrowers included in the CRE portfolio transfer.

The terms of the services agreement are broadly similar to the terms of the Transitional Services Agreement. The service provider is required to meet specified service standards or service levels, and must ensure that in performing the services it complies with applicable laws. There is an annual fee payable, which is subject to an annual review process which also addresses overall performance and management of the services.

The liability of each party for service failure (but not certain categories of claims relating to breach of law or specific indemnities) is subject to agreed caps, which are currently £11 million for NAB and £112.5 million for CYBG Group. In addition, each party has the right to appoint substitute providers for some or all of the services in certain specific circumstances where failure would be critical to the recipient's business.

The recipient of any particular service is entitled to terminate that service by notice to the service provider, and there is a customary change process procedure whereby changes to the services or service levels are required to be discussed in good faith and agreed.

19. RELATED PARTY TRANSACTIONS

Save as (i) described in the Historical Financial Information set out in Note 12 and (ii) the transactions described in Part 2: "*Information on CYBG Group – Relationship with NAB*", there were no related party transactions entered into by the Company or any member of CYBG Group during the financial years ended 30 September 2012, 2013, 2014 and 2015 and during the period up to the date of this Prospectus.

20. SELLING SHAREHOLDER

The following table sets out interests of the Selling Shareholder in CYBG's Shares immediately prior to and immediately following Admission:

Shareholder	**Shares owned immediately prior to Admission**		**Shares distributed to NAB shareholders pursuant to the Demerger**		**Shares to be sold in the Global Offer (excluding the Over-allotment Option)**		**Shares to be sold pursuant to the Over-allotment Option**		**Shares owned after the Demerger and Admission[(2)]**	
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
NAB	879,315,256[(1)]	100	659,486,442	75	191,155,491	21.7	28,673,323	3.3	0	0

(1) Comprises 40,000 Shares held by NAB at the date of this Prospectus and a further 879,275,256 Shares to be issued to NAB in consideration for the sale to the Company by NAB of the entire issued and to be issued share capital of CYBI.

(2) Assuming full exercise of the Over-allotment Option.

21. CONSENTS

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of its reports set out in the Historical Financial Information and Part 9: "*Unaudited Pro*

Forma Financial Information" respectively and the references to its reports and its name in the form and context in which they are respectively included and has authorised the contents of its reports for the purpose of paragraph 23.1 of Annex I of the Prospectus Directive Regulation. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

22. **CREDIT RATING AGENCIES**

This prospectus contains references to Moody's, Fitch and S&P.

Each of Moody's, S&P and Fitch is established in the European Union and is registered under the CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

23. **GENERAL**

23.1 The financial information concerning CYBG Group contained in this Prospectus does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act. Full individual accounts of CYBI and each of its subsidiary undertakings for each financial year to which the financial information relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies. The consolidated financial statements of CYBI in respect of the four years ended 30 September 2015 were reported on by Ernst & Young LLP of 1 More London Place, London, SE1 2AF the auditors of the Company within the meaning of section 495 of the Companies Act.

23.2 The Offer Price which is to be paid in cash represents a premium of 55 pence over the nominal value of £1.25 per Share.

23.3 The Global Offer is being underwritten in full by the Managers pursuant to the Underwriting Agreement, details of which are set out in paragraph 18.1 above.

23.4 The total costs, charges and expenses in connection with the Global Offer are estimated to be £32 million (exclusive of VAT). Expenses in connection with the Global Offer are payable by the Selling Shareholder.

23.5 The information sourced from third parties has been accurately reproduced and so far as the Company is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

23.6 The Shares will be admitted with the ISIN GB00BD6GN030.

24. **DOCUMENTS FOR INSPECTION**

Copies of the following documents may be inspected during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of Clifford Chance LLP at 10 Upper Bank Street, Canary Wharf, London, E14 5JJ from the date of publication of this Prospectus until Admission:

(a) the Articles of Association of the Company;

(b) the reports by Ernst & Young LLP set out in the Historical Financial Information and Part 9: "*Unaudited Pro Forma Financial Information*" of this document;

(c) the letter of consent referred to in paragraph 21 above;

(d) this Prospectus.

Dated: 3 February 2016

PART 15
DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document unless the context requires otherwise:

"**£100 million Termination**"	NAB's right to terminate the Capped Indemnity (subject to the agreement of the PRA) where the Unutilised Indemnity Amount is £100 million or less by subscribing for Shares at market price in an amount equal to the Unutilised Indemnity Amount provided that the value of the Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Company (on an undiluted basis) at such time
"**Additional Tier 1**" or "**AT1**"	Additional Tier 1 as calculated in accordance with applicable laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect
"**Additional Tier 1 Securities**"	CRD IV compliant additional tier 1 securities
"**Admission**"	the admission of the Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange plc's main market for listed securities and a reference to Admission becoming "**effective**" is to be construed in accordance with the Listing Rules or the Standards (as applicable)
"AEDT"	Australian Eastern Daylight Time
"**AFS**"	available for sale
"**Aggregate Exposure Amount**"	the Capped Indemnity Amount as at the Demerger Date plus £120 million
"**Articles of Association**" or "**Articles**"	the articles of association of the Company which have been adopted conditional on and with effect on and from Admission
"**Asset and Liability Committee**"	the asset and liability committee of CYBG Group
"**ASIC**"	Australian Securities and Investments Commission
"**ASX**"	ASX Limited (ABN 98 008 624 691) or, as the case requires, the financial market operated by it
"**ASX Foreign Exempt Listing**"	a secondary listing on the ASX of a foreign entity having a primary listing on another securities exchange
"**ASX Listing Rules**"	the listing rules of the ASX from time to time as modified by any express written confirmation, waiver or exemption given by the ASX
"**ASX Listing Rules (Standard Listing)**"	the ASX Listing Rules and any other rules of the ASX which are applicable for so long as the Company is admitted to the official list of the ASX (excluding as an ASX Foreign Exempt Listing), each as amended or replaced from time to time, except to the extent of any express written waiver by the ASX
"**ASX Official List**"	the official list of entities that the ASX has admitted and not removed
"**ASX Settlement**"	ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility

"**ASX Settlement Operating Rules**"	the operating rules of the clearing and settlement facility operated by ASX Settlement Pty Limited (ABN 49 008 504 532)
"**Australian Admission**"	admission of the Company to the ASX Official List (either as an ASX Foreign Exempt Listing or, if Admission does not become effective by 7:00 p.m. (AEDT) on the second business day after the Demerger Date, a standard listing) and for official quotation of the CYBG CDIs on the ASX
"**Authorised Nominee**"	CHESS Depositary Nominees Pty Limited (ACN 071 346 506, AFLS 254514), an approved general participant of ASX Settlement and a wholly owned subsidiary of the ASX
"**Authorities**"	the Bank of England (including the PRA) and/or the FCA
"**bank value**"	the value of business lending security
"**Banking Act**"	the UK Banking Act 2009, as amended or re-enacted from time to time, and any orders, regulations, rules or instruments made thereunder
"**Banking Reform Act**"	the Financial Services (Banking Reform) Act 2013
"**banking surcharge**"	an 8 per cent. surcharge on profits of banks to the extent that they exceed £25 million per year introduced by the UK Government through provisions in the Finance (No. 2) Act
"**Basel Committee**"	the Basel Committee on Banking Supervision
"**basis risk**"	the inability of the pricing 'basis' for asset and liability products to be replicated in the financial markets
"**BBA**"	British Bankers Association
"**BCA**"	business current accounts
"**BCOB**"	the Banking Conduct of Business sourcebook
"**Big Five**"	the large UK national banks consisting of Barclays, HSBC, Lloyds, RBS and Santander
"**BIS**"	the Department for Business Innovation and Skills
"**Board**" or "**Company Board**"	the board of directors of the Company from time to time
"**Board's Risk Committee**" or "**Risk Committee**"	the risk committee of the Board
"**BofA Merrill Lynch**"	Merrill Lynch International
"**BRRD**"	the Bank Recovery and Resolution Directive (2014/59/EU)
"**BSRC**"	Banking Standards Review Council
"**BTL**"	buy-to-let

"**CAGR**"	compound annual growth rate
"**Capital Requirements Regulation**"	the EU regulation on prudential requirements for credit institutions and investment firms (No 575/2013)
"**Capped Indemnity**"	the indemnity from NAB in favour of the Company subject to certain limitations against the amount of provisions raised or increased in respect of certain qualifying conduct costs to be incurred by CYBG Group, which is capped at the Capped Indemnity Amount and subject to the Loss Sharing Arrangement, under the terms of the Conduct Indemnity Deed
"**Capped Indemnity Amount**"	an amount equal to £1.58 billion less any Pre-Covered Provision Amount
"**CARE**"	career average revalued earnings basis
"**CASS**"	7 day current account switch service
"**CASS Sourcebook**"	the Client Assets Sourcebook
"**CCA**"	the Consumer Credit Act 1974 and its related secondary legislation
"**CCB**"	Clydesdale Covered Bonds No.2 LLP
"**CDI**"	a CHESS depositary interest issued over ordinary shares in the capital of the Company as contemplated by the ASX Listing Rules
"**CDI Election**"	an election made by an Eligible Overseas Shareholder (other than a Sale Facility Shareholder) to receive CDIs instead of Shares as part of the Demerger
"**CDI Holders**"	holders of CDIs from time to time
"**CDI Receiving NAB Shareholder**"	an Eligible Shareholder who receives a CDI under the Demerger
"**CEO**"	chief executive officer
"**Certification Regime**"	the certification regime forming part of the accountability framework introduced by the Banking Reform Act
"**CET1**" or "**Common Equity Tier 1**"	common equity tier 1 capital
"**CHAPS**"	Clearing House Automated Payment System
"**CHESS**"	the clearing house electronic sub-register system of share transfer operated by ASX Settlement
"**CISA**"	the Swiss Federal Act on Collective Investment Schemes
"**Clydesdale Bank**"	Clydesdale Bank plc
"**Clydesdale Bank Board**"	the board of directors of Clydesdale Bank
"**CMA**"	the UK Competition and Markets Authority in the UK, or its relevant successors from time to time
"**Code**"	the UK Corporate Governance Code published in September 2014
"**Co-Lead Managers**"	Keefe, Bruyette & Woods, a Stifel Company and RBC Capital Markets

"**Collateral Account**"	a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount from time to time used to collateralise certain obligations of NAB under the Capped Indemnity from the Demerger Date
"**Companies Act**"	the Companies Act 2006, as amended
"**Company**" or "**CYBG**"	CYBG PLC
"**Company Capital Reduction**"	the proposed reduction in the share capital of the Company to create distributable reserves in the Company by reducing the "nominal" or "par" value of each Share from £1.25 to 10 pence and the aggregate amount of such reduction being credited to distributable reserves, following implementation of the Demerger
"**Company Information**"	all information included in documents published in connection with the Demerger and the Global Offer (including the applications to the ASX and LSE for Admission) which relates to the Shares and CDIs (and all rights, entitlements, liabilities and responsibilities attaching thereto), CYBG Group and the business conducted by that group (including all financial information), and including the information for which CYBG takes responsibility for in this Prospectus as set out in "*Important Information*"
"**Company Registry**"	Computeshare Investor Services Pty Limited
"**CONC**"	the Consumer Credit sourcebook
"**Conduct Framework**"	the conduct framework of CYBG Group, which describes the set of objectives and desired outcomes in respect of CYBG Group's conduct towards its customers, designed to ensure fair customer outcomes
"**Conduct Indemnity Authority**"	the unconditional authority to the directors to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £200,000,000 in so far as such shares are to be allotted and issued or such rights are to be granted by the Company pursuant to the terms of the Conduct Indemnity Deed, as further described in Part 14: "*Additional Information – Share Capital*"
"**Conduct Indemnity Deed**"	the conduct indemnity deed entered into on 2 December 2015 between the Company and NAB in relation to the Capped Indemnity and the Tax Indemnity Provisions
"**Conduct Matter**"	conduct issues relating to PPI, Standalone IRHP, Voluntary Scope TBLs and FRTBLs and other conduct matters in the period prior to the Demerger Date whether or not known at the Demerger Date
"**Conduct Rules**"	the conduct rules forming part of the accountability framework introduced by the Banking Reform Act
"**Consumer Credit Regime**"	collectively, the FSMA and its secondary legislation, retained provisions in the CCA and rules and guidance in the FCA Handbook, including the CONC
"**Consumer Rights Act**"	the Consumer Rights Act 2015
"**Convertible Notes Authority**"	the unconditional authority to the directors to exercise all the powers of the Company to allot shares in the Company up to an aggregate nominal amount of £450,000,000 in connection with the issue by the Company of £450,000,000 fixed rate reset perpetual subordinated contingent convertible notes, as further described in Part 14: "*Additional Information – Share Capital*"

"**Corporations Act**"	the *Corporations Act 2001 (Cth) in Australia*
"**CPI**"	Consumer Price Index
"**CRA Regulations**"	Regulation (EC) No 1060/2009 on credit rating agencies, as amended
"**CRD IV"**	an EU legislative package made up of the Capital Requirements Directive (2013/36/EU) and the Capital Requirements Regulation implementing the proposal of the Basel Committee in the EU
"**CRE**"	commercial real estate
"**CREST**"	the system for paperless settlement of trades in listed securities, of which Euroclear UK & Ireland Limited is the operator
"**CSA**"	Credit Support Annexes
"**Current Directors**"	the Executive Directors and the Non-Executive Directors of the Company
"**Customer Fairness Model**"	a fairness model for the identification and management of potential conduct issues of CYBG Group
"**CYBG Group**"	CYBI and its consolidated subsidiaries and subsidiary undertakings prior to the completion of the reorganisation described in Part 13: "*Details of the Demerger and Company Capital Reduction*" (which is expected to occur immediately prior to Admission) and, thereafter, the Company and its consolidated subsidiaries and subsidiary undertakings from time to time
"**CYBG Loss Share**"	the portion of the New Provision required to be borne by CYBG Group under the Loss Sharing Arrangement
"**CYBG Plans**"	the DEP, LTIP, SIP and SAYE Plan
"**CYBG Securities**"	Shares or CDIs
"**CYBI**"	CYB Investments Limited (formerly National Australia Group Europe Limited)
"**CYBIL**"	CYB Intermediaries Limited
"**CYBIHL**"	CYB Intermediaries Holdings Limited
"**DB Scheme**"	Yorkshire and Clydesdale Bank Pension Scheme, with assets held in a separately administered trust managed independently of CYBG Group by the DB Trustee
"**DB Trustee**"	Yorkshire and Clydesdale Bank Pension Trustee Limited
"**DC Scheme**"	Yorkshire and Clydesdale Bank Defined Contribution Scheme, with assets held in a separately administered trust managed independently of CYBG Group by the DC Trustee
"**DC Trustee**"	YCB DC Trustee Limited

"**Deed Poll**"	the deed poll entered into by the Company on 27 November 2015 in favour of Scheme Participants and each registered holder of a CDI from time to time described in paragraph 18.4 of Part 14: "*Additional Information – Material Contracts*"
"**default shares**"	as defined in paragraph 4.1.20 of Part 14: "*Additional Information – Articles of Association*"
"**Demerger**"	the proposed demerger of CYBG Group from NAB pursuant to which all of the issued share capital of CYBI will be transferred to the Company by NAB in consideration for the issue and transfer of Shares to NAB in accordance with the Sale and Purchase Agreement, in part for the benefit of NAB and in part for the benefit of Scheme Participants under the Scheme, and the NAB Capital Reduction
"**Demerger Authority**"	the unconditional authority to the directors to allot shares in the Company up to an aggregate nominal amount of £1,099,094,070 pursuant to the terms of the Sale and Purchase Agreement, as further described in Part 14: "*Additional Information – Share Capital*"
"**Demerger Date**"	the date on which the Demerger is implemented, expected to be on or around 8 February 2016
"**Demerger Deed**"	the demerger deed entered into by the Company and NAB on 27 November 2015, described in paragraph 18.3 of Part 14: "*Additional Information – Material Contracts*"
"**Demerger Implementation Deed**"	the demerger implementation deed entered into by the Company and NAB on 27 November 2015, described in paragraph 18.2 of Part 14: "*Additional Information – Material Contracts*"
"**Demerger Principle**"	the underlying principle of the Demerger as set out in the Demerger Deed and described in paragraph 1.6 of Part 13: "*Details of the Demerger and Company Capital Reduction*"
"**DEP**" or "**Deferred Equity Plan**"	the CYBG Deferred Equity Plan
"**Designated Account**"	a separately designated account in the name of a member of CYBG Group
"**DFSA**"	Dubai Financial Services Authority
"**DGSD**"	the EU directive on deposit guarantee schemes
"**Directors**"	the Current Directors
"**directors**"	the directors of the Company from time to time
"**Disclosure and Transparency Rules**"	the disclosure rules and transparency rules produced by the FCA under Part VI of FSMA and forming part of the FCA Handbook as, from time to time, amended
"**Divestment Notice**"	has the meaning given to it in paragraph 4.1.7 of Part 14: "*Additional Information – Articles of Association*"
"**Dividend Shares**"	Shares purchased using any dividends paid on Free, Partnership or Matching Shares under the SIP
"**EAD**"	exposure at default

"**EaR**"	Earnings at Risk
"**EBA**"	the European Banking Authority
"**ECL**"	expected credit loss
"**eCRS**"	electronic credit rating system
"**EEA**" or "**European Economic Area**"	the EU, Iceland, Norway and Liechtenstein
"**Electronic Signatures Regulation**"	EU Regulation 910/2014 on e-identification and trust services for electronic transactions in the internal market
"**Eligible Australian/New Zealand Shareholder**"	a NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is in Australia or New Zealand
"**Eligible Overseas Shareholder**"	a NAB Shareholder whose registered address on the NAB Share Register as at the Scheme Record Date is in the UK, United States (excluding California), Singapore, Hong Kong, Japan, Ireland or Canada
"**Eligible Shareholder**"	an Eligible Australian/New Zealand Shareholder and/or an Eligible Overseas Shareholder
"**ELTI**" or "**Executive Long Term Incentive Rights**"	Executive Long Term Incentive Rights
"**EMIR**"	the European market infrastructure regulation (Regulation 648/2012)
"**EMU**"	the European Monetary Union
"**EU Consumer Rights Directive**"	the EU directive on Consumer Rights (2011/83/EC)
"**European Union**" or "**EU**"	an economic and political union of 28 Member States which are located primarily in Europe
"**Eurozone**"	the Member States of the European Union that have adopted the euro as their common currency and sole legal tender
"**Exchange Act**"	the United States Securities Exchange Act of 1934, as amended
"**Executive Directors**"	David Duffy, Debbie Crosbie and Ian Smith
"**Executive Plans**"	the LTIP and DEP
"**FATCA**"	Foreign Account Tax Compliance Act (Cth)
"**FCA**"	the Financial Conduct Authority of the UK or its relevant successors from time to time
"**FCA Handbook**"	the FCA's handbook of rules and guidance
"**FEMR**"	the Fair and Effective Markets Review, a joint review and consultation by the Bank of England, HM Treasury and the FCA into the way wholesale financial markets function
"**FIEL**"	Financial Instruments and Exchange Law, as amended

"**Finance Act**"	the Finance Act 2015, enacted on 26 March 2015
"**Finance (No. 2) Act**"	the Finance (No. 2) Act 2015, enacted on 18 November 2015
"**FINREP**"	the standardised EU-wide supervisory reporting framework for financial reporting adopted through CRD IV
"**Fitch**"	Fitch Ratings Limited
"**FLA**"	Finance and Leasing Association
"**FLS**"	the UK Government's "Funding for Lending Scheme"
"**FMC Act**"	the Financial Markets Conduct Act 2013
"**FMCST**"	Financial Management and Customer Solutions team
"**FOS**"	the Financial Ombudsman Service
"**FPC**"	the Financial Policy Committee a Bank of England committee responsible for ensuring financial stability
"**Free Shares**"	Shares that may be awarded for free under the SIP to each participant in the plan
"**FRTBLs**"	fixed rate tailored business loans
"**FSA**"	the Financial Services Authority, succeeded by the PRA and the FCA
"**FSA 2012**"	the Financial Services Act 2012
"**FSCS**"	the UK Financial Services Compensation Scheme
"**FSMA**"	the Financial Services and Markets Act 2000, as amended
"**FTEs**"	full time equivalent employees
"**FVOCI**"	fair value through other comprehensive income
"**GDP**"	Gross Domestic Product
"**GDPR**"	the General Data Protection Regulation which would replace the existing UK Data Protection Act 1998 and the equivalent laws in other EU and EEA Member States
"**General Meeting**"	the general meeting of NAB Shareholders convened to consider the NAB Capital Reduction Resolution
"**General Prohibition**"	the FSMA prohibition on any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that person is authorised or exempt under the FSMA
"**Global Offer**"	the offer of Shares to institutional and certain other investors described in Part 12: "*Details of the Global Offer*"
"**Good Leaver**"	a participant in any of the CYBG Plans who leaves employment due to injury, disability, redundancy, transfer of the employing business or company out of CYBG Group, retirement or on death
"**gross dividend**"	as defined in paragraph 1.2.1 of Part 11: "*Taxation*"
"**GVA**"	gross value added

"**Historical Financial Information**" or "**HFI**"	the audited consolidated financial information of CYBG Group and the accompanying notes as at and for the years ended 30 September 2015, 2014, 2013 and 2012 as set forth in Part 8: "*Historical Financial Information*" hereto
"**HMRC**"	Her Majesty's Revenue and Customs
"**HM Treasury**"	Her Majesty's Treasury
"**IAS**"	International Accounting Standards
"**IASB**"	International Accounting Standards Board
"**ICAAP**"	the Internal Capital Adequacy Assessment Process
"**ICB**"	Sir John Vickers' Independent Commission on Banking
"**ICG**"	Individual Capital Guidance set by the PRA, which establishes minimum capital and liquidity required to be held by a retail bank
"**ICOBS**"	the Insurance Conduct of Business sourcebook
"**IFRS**"	International Financial Reporting Standards as adopted by the European Union
"**IGA**"	the intergovernmental agreement between the United States and the United Kingdom regarding the implementation of FATCA
"**ILAA**"	the Individual Liquidity Adequacy Assessment for compliance with overall liquidity risk
"**ILG**"	Individual Liquidity Guidance
"**IMD2**"	the recast Insurance Mediation Directive
"**Indirect Access Review**"	the PSR's market review into the supply of indirect access to payment systems
"**Ineligible Shareholder**"	a NAB Shareholder, who as at the Scheme Record Date is not an Eligible Shareholder
"**Infrastructure Review**"	the PSR market review into how infrastructure is provided for certain payment systems in the UK
"**Insurance Intermediary**"	CYB Intermediaries Holdings Limited and its subsidiary CYB Intermediaries Limited
"**Intercompany Loan Agreement**"	the global intercompany loan agreement between Lanark Funding and Lanark Issuer and that forms the basis of the primary source of funds from Lanark Funding to the Lanark Issuer to make payments on the notes issued pursuant to the Lanark Programme
"**IRB**"	Internal Ratings Based
"**IRC**"	the US Internal Revenue Code of 1986, as amended
"**IRHP**"	interest rate hedging products which comprises Standalone IRHP and Voluntary Scope TBLs
"**IRRBB**"	interest rate risk in the banking book
"**IRS**"	US Internal Revenue Service

"**ISDA**"	International Swaps and Derivatives Association
"**IT**"	information technology
"**J.P. Morgan Cazenove**"	J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove)
"**Joint Bookrunners**"	BofA Merrill Lynch, Macquarie Capital, Morgan Stanley and J.P. Morgan Cazenove
"**Joint Global Co-ordinators**"	BofA Merrill Lynch, Macquarie Capital and Morgan Stanley
"**Keefe, Bruyette & Woods, a Stifel Company**"	Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods, a Stifel Company)
"**KMP**"	key management personnel
"**Lambert Report**"	the report published by Sir Richard Lambert on 19 May 2014 containing recommendations for a new Banking Standards Review Council
"**Lanark Funding**"	Lanark Funding Limited
"**Lanark Issuer**"	Lanark Master Issuer plc
"**Lanark Programme**"	a £20 billion residential mortgage-backed master trust note programme established by Clydesdale Bank in 2007
"**Lannraig Funding**"	Lannraig Funding Limited
"**Lannraig Issuer**"	Lannraig Master Issuer plc
"**Lannraig Programme**"	the £10 billion buy-to-let mortgage-backed master trust note programme
"**LDR**"	loan-to-deposit ratio
"**Leverage Ratio**"	the leverage ratio being the capital measure (the numerator) divided by the exposure measure (the denominator) calculated in accordance with relevant EU legislation
"**LGD**"	loss given default
"**LIBOR**"	London Interbank Offered Rate
"**Liquidity Coverage Ratio**" or "**LCR**"	liquidity coverage ratio
"**Listing Rules**"	the rules and regulations made by the FCA under Part VI of FSMA
"**London Stock Exchange**" or "**LSE**"	the London Stock Exchange plc, together with its relevant successors from time to time or, if the context so requires, its main market for listed securities
"**Loss Share**"	the percentage of a provision raised or increase in a provision which equates to the proportion that £120 million bears to the Aggregate Exposure Amount, expressed as a percentage, for which it has been agreed under the Loss Sharing Arrangement that CYBG Group will be responsible

"**Loss Sharing Arrangement**"	the arrangement relating to the Capped Indemnity pursuant to which the Company will be responsible for the CYBG Loss Share
"**LTIP**"	the CYBG Long Term Incentive Plan
"**LTV**"	loan-to-value
"**Macquarie Capital**"	Macquarie Capital (Europe) Limited
"**Management Basis**"	the consolidated income statement data that is presented on a management basis, which the Directors believe better reflects the underlying performance of CYBG Group's business
"**Managers**"	Morgan Stanley, Macquarie Capital, BofA Merrill Lynch, J.P. Morgan Cazenove, RBC Capital Markets and Keefe, Bruyette & Woods, a Stifel Company
"**Marketable Parcel**"	has the meaning given to it in the ASX Listing Rules
"**Matching Shares**"	Shares that may be awarded under the SIP when a participant purchases Partnership Shares
"**MCD**"	the European Union Mortgage Credit Directive
"**MCDI**"	the Mortgage Credit Directive Instrument 2015 (FCA 2015/18)
"**MCDO**"	the Mortgage Credit Director Order 2015
"**MCOB**"	the Mortgages and Home Finance Conduct of Business sourcebook
"**Member State**"	member state of the EEA
"**MIF Regulation**"	the proposed Regulation on interchange fees for card-based payment transactions
"**MiFID II**"	directive and associated regulation on markets in financial instruments adopted by the European Parliament and European Council on 15 May 2014
"**mismatch risk**"	the mismatch between repricing dates of interest-bearing assets and liabilities
"**MMR**"	Mortgage Market Review
"**Moody's**"	Moody's Investors Service Limited
"**Morgan Stanley**"	Morgan Stanley & Co. International plc
"**MREL**"	the BRRD requirement for firms to meet the minimum requirement for own funds and eligible liabilities
"**NAB**"	National Australia Bank Limited
"**NAB Capital Reduction**"	the reduction in the capital of NAB by the NAB Capital Reduction Aggregate Amount to be applied equally against each NAB Share on issue as at the Scheme Record Date in accordance with the terms of the NAB Capital Reduction Resolution

"**NAB Capital Reduction Aggregate Amount**"	the aggregate amount of the capital of NAB that is to be reduced in accordance with the NAB Capital Reduction Resolution calculated by multiplying the number of NAB Shares on issue at the Scheme Record Date by the average VWAP of Shares and CDIs as traded on the LSE and/or the ASX respectively over the first five trading days following the Scheme Effective Date, divided by four
"**NAB Capital Reduction Portion**"	in relation to a Scheme Participant, the NAB Capital Reduction Pro Rata Amount multiplied by the number of NAB Shares held by the Scheme Participant on the Scheme Record Date
"**NAB Capital Reduction Pro Rata Amount**"	the NAB Capital Reduction Aggregate Amount divided by the number of NAB Shares on issue on the Scheme Record Date
"**NAB Capital Reduction Resolution**"	the ordinary resolution concerning the NAB Capital Reduction passed on 27 January 2016
"**NAB Group**"	NAB and its consolidated subsidiaries excluding CYBG Group
"**NAB Information**"	all information or documents published in connection with the Demerger and the Global Offer (including the applications to the ASX and LSE for Admission) in relation to the NAB Shares and all rights, entitlements, liabilities and responsibilities attaching thereto, NAB (after the Demerger), the business of NAB (after the Demerger) and all information describing the process for, and mechanics of, the Demerger and the Global Offer, and including the information for which NAB takes responsibility in this Prospectus as set out in the Important Information section
"**NAB Loss Share**"	an amount equal to the New Provision, less the amount of the New Provision required to be borne by CYBG Group under the Loss Sharing Arrangement
"**NAB LTI**"	NAB Long-term Incentives which take the form of Shares, performance options and Performance Rights granted under the NAB Performance Rights Plan, the NAB Staff Share Ownership Plan and the NAB Staff Share Allocation Plan
"**NAB Performance Rights Plan**"	the NAB Performance Rights Plan operated by NAB
"**NAB Plans**"	NAB Performance Rights Plan, NAB Staff Share Ownership Plan, NAB Staff Share Allocation Plan and NAB Share Incentive Plan
"**NAB Share Incentive Plan**"	the NAB Share Incentive Plan operated by NAB
"**NAB Share Register**"	the register of members of NAB maintained by or on behalf of NAB in accordance with section 168(1) of the Corporations Act
"**NAB Shareholder**"	a person who is registered in the NAB Share Register as the holder of a NAB Share
"**NAB Shareholder CYBG Shares**"	659,486,442 new Shares to be issued to NAB by the Company on the Demerger Date under the terms of the Sale and Purchase Agreement for NAB to hold as nominee and bare trustee for the NAB Shareholders or the Sale Agent (as applicable)
"**NAB Shares**"	ordinary shares in the capital of NAB
"**NAB Staff Share Allocation Plan**"	the NAB Staff Share Allocation Plan operated by NAB
"**NAB Staff Share Ownership Plan**"	the NAB Staff Share Ownership Plan operated by NAB

"**NATL**"	National Australia Trustees Limited (ABN 80 007 350 405)
"**NEL**"	National Equities Limited
"**New AT1 Notes**"	£450,000,000 Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes
"**New Provision**"	a new provision or an increase to an existing provision that Clydesdale Bank (or another subsidiary within CYBG Group) establishes at such time after Admission and prior to the termination of the Capped Indemnity for a Relevant Conduct Matter in an amount that is covered in full by the Capped Indemnity, subject to the Loss Sharing Arrangement
"**New Tier 2 Notes**"	£475,000,000 5 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026
"**NHKI**"	National HK Investments Limited
"**Non-Executive Directors**"	James Pettigrew, Richard Gregory, Adrian Grace, David Bennett, David Allvey, David Browne, Barbara Ridpath, Teresa Robson-Capps and Alex Shapland
"**NSFR**"	net stable funding ratio
"**Offer Price**"	the price of 180 pence per Share at which Shares are to be issued or sold under the Global Offer
"**Official Journal**"	the Official Journal of the European Union is the official compendium of EU legislation and other official documents of the EU institutions, bodies and agencies
"**Official List**"	the Official List of the FCA
"**OFT**"	the Office of Fair Trading
"**Operator**"	the operator of the relevant system in accordance with and subject to the Regulations
"**Order**"	the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended
"**OTC**"	over the counter
"**Over-allotment Option**"	the option granted by the Selling Shareholder pursuant to which the Stabilising Manager may require the Selling Shareholder to sell additional Shares at the Offer Price
"**Over-allotment Shares**"	means Shares sold pursuant to the Over-allotment Option
"**Partnership Shares**"	Shares purchased by participants in the SIP using contributions from pre-tax salary
"**Past Business Review**"	the examination of sales practices and other evidence to provide an assessment as to whether sales to customers were suitable in light of the customer's circumstances
"**Payment Accounts Directive**"	Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

"**PCA**"	personal current accounts
"**PCAOB**"	the Public Company Accounting Oversight Board (United States)
"**PCBS**"	the Parliamentary Commission on Banking Standards
"**PD**"	probability of default
"**Pensions Regulator**"	the regulator established under Part 1 of the Pensions Act 2004 (as amended) in the United Kingdom
"**Performance Rights**"	performance rights over NAB Shares
"**period under review**"	collectively, the years ended 30 September 2015, 2014, 2013 and 2012
"**PFIC**"	a passive foreign investment company
"**PLAC**"	primary loss-absorbing capacity
"**PNFCs**"	private non-financial companies
"**Post-5 Year Equity Subscription Termination**"	the agreement between NAB and the Company that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary thereafter), seek to agree arrangements to terminate or replace the Capped Indemnity (with the consent of the PRA) as further described in Part 2: "*Information of CYBG Group – Conduct*"
"**PPI**"	payment protection insurance
"**PRA**"	the Prudential Regulation Authority of the UK or its relevant successor from time to time
"**PRA Remuneration Code**"	the PRA remuneration code as set out in the PRA Rulebook
"**PRA Rulebook**"	the PRA's rulebook of rules and directions
"**Pre-Covered Provision Amount**"	the amount of any provision(s) relating to any Conduct Matters raised or increased by CYBG Group between 31 March 2015 and the Demerger Date in respect of which NAB has provided specific support at any time after 31 March 2015 but prior to the Demerger Date (and which includes the increase in the existing provision for PPI of £390 million and the increase of £75 million in the existing provision for IRHP/FRTBL in the accounts of CYBG Group as at 30 September 2015 for which NAB provided capital support in an aggregate amount of £465 million)
"**Pre-Demerger Provision Amount**"	the amount of CYBG Group's existing provisions for conduct liabilities which are unutilised at the Demerger Date
"**Preparatory Allotment Authority**"	the unconditional authority to the directors to exercise all the powers of the Company to allot ordinary shares in the Company up to an aggregate nominal amount of £2,000, as further described in Part 14: "*Additional Information – Share Capital*"
"**Pro Forma Financial Information**"	the pro forma financial information set out in Part 9(B) of the Prospectus

"**Probation Period**"	the period (of at least two years from the date forbearance measures are granted) for which exposures classified as forborne and performing at that are reported as subject to forbearance
"**Product Governance Framework**"	an enhanced product governance framework with a standardised "best practice" model implemented by CYBG Group across product management in 2013
"**proprietary channels**"	CYBG Group's private bank and branch networks
"**Prospectus**"	the final prospectus
"**Prospectus Directive**"	Directive 2003/71/EC (as amended, including by Directive 2010/73/EC) and includes all relevant implementing measures in each Relevant Member State
"**Prospectus Directive Regulation**"	European Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended
"**Prospectus Rules**"	the prospectus rules published by the FCA under section 73A FSMA
"**PSD**"	Directive 2007/64/EC on payment services in the internal market
"**PSD2**"	the legislative proposal to revise the PSD, published in July 2013 by the European Commission
"**PSR**"	the payment systems regulator introduced by Financial Services (Banking Reform) Act 2013 and launched in April 2015
"**QIS**"	the Basel Committee's quantitative impact study
"**Qualified Institutional Buyers**" or "**QIBs**"	has the meaning given in Rule 144A under the Securities Act
"**Qualified Investors**"	qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC as amended, including by Directive 2010/73/EC)
"**RAO**"	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
"**RBC Capital Markets**"	RBC Europe Limited
"**RCB Programme**"	a €10 billion regulated covered bond programme established by Clydesdale Bank in 2010 unconditionally and irrevocably guaranteed as to payments of interest and principal by the CCB
"**RCB Regulations**"	the legislative proposal to revise the PSD, published in July 2013 by the European Commission
"**RCB Sourcebook**"	the Regulated Covered Bonds Sourcebook Instrument 2008
"**Recast DGSD**"	Directive 2014/49/EU on deposit guarantee schemes
"**Registrar**"	Computershare
"**Regulations**"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) (including any modification, re-enactments or substitute regulations for the time being in force)
"**Regulation S**"	Regulation S under the Securities Act
"**Relevant Conduct Matters**"	the conduct issues covered by the Capped Indemnity

"**Relevant Legislation**"	the Banking Act and any other laws, orders, regulations, rules, instruments or requirements from time to time in force or applicable in the UK and any associated PRA and/or FCA rules relating to the resolution of banks, banking group companies, investment firms or financial institutions or any of their affiliates
"**Relevant Member State**"	each Member State of the EEA that has implemented the Prospectus Directive
"**relevant persons**"	Qualified Investors who (i) are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Order, (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) are other persons to whom this document may otherwise lawfully be communicated
"**Relevant Resolution Authority**"	the Bank of England or any other regulatory or governmental agency, body or authority which has authority under Relevant Legislation to exercise a Resolution Power
"**relevant system**"	has the same meaning in the Regulations
"**Remuneration Committee**"	the remuneration committee of the Company
"**repos**"	securities sold subject to purchase agreements
"**Resolution Power**"	any power existing from time to time under Relevant Legislation, among others, pursuant to which the shares or other securities of or relating to (or rights attaching to such shares or other securities) a bank, banking group company or investment firm can be compulsorily transferred, cancelled, reduced, suspended or converted into other securities, in each case, in whole or in part and/or any other law, regulation, rule or requirement relating to, or in connection with, the resolution of banks, banking group companies and/or investment in effect and applicable in the UK to the Company or any of its subsidiary undertakings
"**reverse repos**"	securities purchased under agreements to resell
"**Reverse Transitional Services Agreement**" or "**RTSA**"	the reverse transitional services agreement entered into by Clydesdale Bank and NAB on 29 January 2016 described in paragraph 18.6 of Part 14: "*Additional Information – Material Contracts*"
"**Risk Management Framework**"	the totality of systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk
"**RLS**"	retail and lending services
"**RMBS**"	residential mortgage-backed securities
"**ROTE**"	return on tangible equity
"**RPI**"	Retail Price Index
"**Rule 144A**"	Rule 144A under the Securities Act
"**RWAs**"	risk-weighted assets
"**S&P**"	Standard & Poor's Credit Market Services Europe Limited

"**Sale Agent**"	the person or persons to be appointed by NAB to sell or facilitate the transfer of the Shares attributable to Ineligible Shareholders and on behalf of Sale Facility Shareholders
"**Sale and Purchase Agreement**"	the sale and purchase agreement dated 27 November 2015 entered into between NAB and the Company in relation to the acquisition by the Company of the entire issued share capital of CYBI
"**Sale Facility**"	the facility under which Sale Facility Shareholders' Shares may be sold
"**Sale Facility Proceeds**"	the proceeds from the sale of a Sale Facility Shareholder's CYBG Securities under the Sale Facility
"**Sale Facility Shareholder**"	an Ineligible Shareholder or a Small Shareholder who elects to participate in the Sale Facility, and includes NATL where (and to the extent that) NATL elects through the Sale Facility to sell all (but not some) of the CYBG Securities to which NATL is entitled under the Scheme on behalf of, and in respect of, a Small Employee Holder
"**Sale Shares**"	the Shares to be sold by NAB in the Global Offer
"**SAYE Plan**"	CYBG Save As You Earn Plan
"**SBS**"	Strategic Business Services
"**Scheme**"	a scheme of arrangement under Part 5.1 of the Corporations Act between NAB and NAB shareholders to effect the Demerger
"**Scheme Booklet**"	the scheme booklet for the Demerger
"**Scheme Effective Date**"	8.00 a.m. AEDT on 2 February 2016
"**Scheme Meeting**"	the meeting of NAB Shareholders ordered by the Supreme Court of Victoria pursuant to section 411(1) of the Corporations Act to consider the Scheme Resolution
"**Scheme Participants**"	each person who is registered on the NAB Share Register as the holder of a NAB Share on the Scheme Record Date
"**Scheme Record Date**"	7.00 p.m. (AEDT) on 5 February 2016
"**Scheme Resolution**"	the resolution to approve the Scheme, to be considered by NAB Shareholders at the Scheme Meeting
"**SCV**"	Single Customer View
"**SDRT**"	UK stamp duty reserve tax
"**secretary**"	the company secretary of the Company from time to time
"**section 793 notice**"	a notice served by the Company under section 793 of the Companies Act
"**Securities Act**"	the United States Securities Act of 1933, as amended
"**Select Committee**"	the UK Treasury Select Committee

"**Selling Shareholder**"	NAB, which, pursuant to the Underwriting Agreement, has agreed to sell Shares in the Global Offer
"**Senior Managers Regime**"	the Senior Managers Regime rules of individual accountability of the FCA and PRA under the Banking Reform Act
"**Senior Managers**"	those persons named as senior managers in paragraph 2 of Part 3: "*Directors, Senior Management and Corporate Governance*"
"**SEPA Migration Regulation**"	EU regulation 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro
"**SEs**"	structured entities
"**SFA**"	the Securities and Futures Act, Chapter 289 of Singapore
"**Share Election**"	an election made by an Eligible Australian/New Zealand Shareholder (other than a Sale Facility Shareholder) to receive Shares instead of CDIs as part of the Demerger
"**ShareGift**"	ShareGift Australia (registered charity ABN 27 086 590 485), a not-for profit organisation that gives shareholders an easy administrative and cost effective way to donate shares or cash proceeds to the community
"**Shareholders**"	the holders of Shares from time to time
"**Shares**"	ordinary shares of the Company
"**Short Term Incentive Plan**"	the CYBG Short Term Incentive Plan
"**SIP**"	the CYBG Share Incentive Plan
"**SIX**"	SIX Swiss Exchange
"**Small Employee Holder**"	a participant in one or more NAB Plans who individually has a beneficial interest in 2,000 NAB Shares or less as at the Scheme Record Date
"**Small Holder**"	a Shareholder or a CDI Holder or a holder of any other class of shares in the Company (if any) who holds less than a Marketable Parcel of securities in the Company
"**Small Shareholder**"	an Eligible Shareholder who individually holds 2,000 NAB Shares or less as at the Scheme Record Date
"**SME**"	micro, small and medium-sized enterprises
"**Sponsor**"	Morgan Stanley & Co. International plc
"**SRR**"	the special resolution regime
"**Stabilisation Period**"	a period of 30 days commencing on the date of commencement of conditional dealings in the Shares on the LSE
"**Stabilising Manager**"	Morgan Stanley & Co. International plc
"**Standalone IRHP**"	standalone interest rate hedging products

"**Standards**"	the "Admission and Disclosure Standards" of the London Stock Exchange
"**Statement of Principles**"	the Pre-Emption Group's Statement of Principles, as updated in March 2015
"**Stock Lending Agreement**"	the stock lending agreement dated 2 February 2016 between the Selling Shareholder and the Stabilising Manager
"**Structural Hedge**"	the hedging activity undertaken to manage CYBG Group's structural interest rate risk which arises from the sensitivity of CYBG Group's current and future net interest income to movements in market interest rates. The main components of this structural interest rate risk are: • the investment of non-interest bearing deposits and equity into interest-bearing assets; • the mismatch between repricing dates of interest-bearing assets and liabilities; and • basis risk, for example, the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets or the risk arising from changing relationships between different interest rate yield curves
"**Structured Covered Bond Programme**"	the Clydesdale Bank €9 billion covered bond programme unconditionally and irrevocably guaranteed as to payments of interest and principal by the CCB
"**sub-prime**"	borrowers who have adverse credit histories
"**SVR**"	standard variable rate
"**Swap Income**" or "**Swap Expense**"	the net interest income received, or expense paid, on the two streams of cash flows on interest rate swaps recognised in net interest income within the Historical Financial Information and within 'Swap Income/ Other' in paragraph 6 of Part 4
"**Takeover Code**"	the City Code on Takeovers and Mergers
"**Tax Indemnity Provisions**"	the provisions of the Conduct Indemnity Deed whereby NAB has agreed to compensate the Company for any actual tax (when incurred) that would not have been incurred but for the receipt of amounts by CYBG Group under the Capped Indemnity if payments under the Capped Indemnity are taxable in the hands of the Company
"Tier 1 ratio"	Tier 1 capital resources divided by RWAs at a given date
"**Tier 2 Notes**"	subordinated notes qualifying as Tier 2 capital as calculated in accordance with applicable laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect
"**Tomlinson Report**"	the independent report published by Dr Lawrence Tomlinson on 25 November 2013 into banks' lending practices: treatment of businesses in distress
"**TR 14/14**"	the FCA's Thematic Review 14/14 "*Redress for payment protection insurance (PPI) mis-sales*"

"**Transitional Services Agreement**" or "**TSA**"	the transitional services agreement entered into by Clydesdale Bank and NAB on 29 January 2016 for the continued provision of a range of certain key services to CYBG Group on a transitional basis. See paragraph 18.5 of Part 14: "*Additional Information – Material Contracts – Transitional Services Agreement*"
"**Tribunal**"	the Upper Tribunal (Tax and Chancery Chamber)
"**TTC**"	estimated through the cycle
"**UCITS Directive**"	Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UK Court**"	the High Court of Justice in England and Wales
"**UK Government**"	the government of the United Kingdom
"**UK Information Commissioner's Office**"	UK independent authority responsible for upholding information rights in the public interest
"**UKLA**"	the UK Listing Authority
"**Underwriting Agreement**"	the underwriting agreement described in paragraph 18.1 of Part 14: "*Additional Information – Material Contracts*"
"**Unutilised Covered Amount**"	the amount of any unutilised accounting provision in the accounts of a member of CYBG Group for matters covered by the Capped Indemnity to the extent indemnified by NAB pursuant to the Capped Indemnity or covered by an amount of a released or reduced provision, interest or tax deduction applied or required to be applied against such provision pursuant to the Conduct Indemnity Deed
"**Unutilised Indemnity Amount**"	has the meaning given to it in Part 2: "*Information on CYBG Group – Conduct*"
"**US**" or "**United States**"	United States of America, its territories and possessions, any state of the United States and the District of Columbia
"**US GAAS**"	the auditing standards generally accepted in the United States of America
"**US Holder**"	a beneficial owner of Shares that is for US federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation or other entity treated as a corporation for US federal income tax purposes created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate, the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust if (x) a court within the United States is able to exercise primary supervision over its administration and (y) one or more United States persons (as defined in the IRC) have the authority to control all of the substantial decisions of such trust
"**UTCCR**"	the UK Unfair Terms in Consumer Contracts Regulations 1999
"**VaR**"	Value at Risk

"**Voluntary Scope TBLs**"	tailored business loans, with additional features such as interest rate protection functionality: structured collars, collars or caps
"**VWAP**"	volume weighted average price
"**YBHL**"	Yorkshire Bank Home Loans Limited
"**YESO**"	Year End Employee Share Offer Shares

In this document, words denoting any gender include all genders (unless the context otherwise requires).

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