



CYBG PLC

(incorporated with limited liability under the laws of England and Wales)

£250,000,000 9.25 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes

The issue price of the £250,000,000 9.25 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "Notes") of CYBG PLC (the "Issuer" or "CYBG") is 100 per cent. of their principal amount.

From (and including) 13 March 2019 (the "Issue Date") to (but excluding) 8 June 2024 (the "First Reset Date"), the Notes bear interest at the rate of 9.25 per cent. per annum. From (and including) each Reset Date to (but excluding) the next following Reset Date, the Notes will bear interest at a rate which is the aggregate of the margin of 8.307 per cent. per annum and the Reset Reference Rate as provided in Condition 6(d). **The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date.** Subject to the conditions set out herein, interest, if any, shall be payable semi-annually in arrear on 8 June and 8 December of each year (each an "Interest Payment Date"), except that the first date on which interest may be paid will be 8 June 2019 (also an "Interest Payment Date") in respect of the period beginning on (and including) the Issue Date and ending on (but excluding) 8 June 2019. Payments on the Notes shall be made in pounds sterling without deduction for or on account of taxes imposed or levied by the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, except in the circumstances described under "*Terms and Conditions of the Notes—Taxation*".

The Issuer may at all times elect at its full discretion to cancel (in whole or in part) interest otherwise scheduled to be paid on any Interest Payment Date. In certain circumstances, the Issuer will be required to cancel interest (or part thereof) otherwise scheduled to be paid on an Interest Payment Date. If the Issuer does not pay interest (or part thereof) on the relevant Interest Payment Date, such non-payment shall evidence the cancellation of such interest. The cancellation of interest (or part thereof) in accordance with the Conditions shall not constitute a default for any purpose on the part of the Issuer and interest payments are non-cumulative.

The Notes will be perpetual and have no fixed maturity or fixed redemption date. As a result of the fact that the Notes are perpetual notes and that the Issuer may cancel (in whole or in part) any interest payment at any time, the Issuer will not be required to make any payment of the principal amount of the Notes at any time prior to its Winding-Up (as defined herein) and Holders (as defined herein) may not receive interest on any Interest Payment Date.

The rights and claims of the Holders will be subordinated to the claims of Senior Creditors (as defined herein).

Subject to certain conditions set out in "*Terms and Conditions of the Notes—Redemption and Purchase*", the Notes may be redeemed at the option of the Issuer in whole but not in part at their principal amount together with any Accrued Interest (as defined herein) on the First Reset Date or on any Reset Date thereafter. In addition, and subject to certain conditions set out in "*Terms and Conditions of the Notes—Redemption and Purchase*", the Notes may be redeemed at any time upon the occurrence of certain tax events due to changes to law or upon a change in the regulatory classification of the Notes that results, or would be likely to result, in the whole or any part of the principal amount of the Notes at any time being excluded from the Group's Tier 1 Capital (as defined herein) under prudential regulatory requirements, all as more particularly provided in "*Terms and Conditions of the Notes—Redemption and Purchase*".

If a Trigger Event (as defined herein) occurs at any time, then an Automatic Conversion (as defined herein) will occur on the Conversion Date (as defined herein), at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares (as defined herein) to the Conversion Shares Depository (as defined herein) (or other relevant recipient as set out herein) on the Conversion Date at the then prevailing Conversion Price (as defined herein). Under no circumstances shall such released obligations be reinstated. The Conversion Shares shall initially be registered in the name of the Conversion Shares Depository (which shall hold the Conversion Shares on behalf of the Holders or the relevant recipient in accordance with the terms of the

Notes). The Issuer may elect, in its sole and absolute discretion, that a Conversion Shares Offer (as defined herein) be made by the Conversion Shares Depository to all or some of the Issuer's ordinary shareholders at such time. The realisable value of any Conversion Shares received by a Holder following an Automatic Conversion may be significantly less than the Conversion Price of £1.19 initially, and Holders could lose all or part of their investment in the Notes as a result of the Automatic Conversion.

Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the approval of these Listing Particulars. Application has been made to Euronext Dublin for the Notes to be admitted to the official list of Euronext Dublin and to trading on the global exchange market (the "**Global Exchange Market**") which is the exchange regulated market of Euronext Dublin. The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU on Markets in Financial Instruments (as amended, "**MiFID II**").

These Listing Particulars do not constitute a prospectus for the purposes of Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**") and, in accordance with such Directive, no prospectus is required in connection with the issuance of the Notes.

The Notes are not intended to be offered, sold or otherwise made available and should not be sold to retail clients (as defined in the rules set out in MiFID II). Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on pages 1 to 2 of these Listing Particulars for further information.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented by a global registered certificate (the "**Global Certificate**") registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Certificates in definitive certificated form ("**Individual Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Notes in Global Form*".

An investment in the Notes involves risk. Prospective investors in the Notes are recommended to read these Listing Particulars, including the section entitled "Risk Factors" carefully. Investors should reach their own investment decision about the Notes only after consultation with their own financial and legal advisers about the risks associated with an investment in the Notes and the suitability of investing in the Notes in light of the particular characteristics and terms of the Notes, which are complex in structure and operation, and in light of each investor's particular financial circumstances.

The Notes are expected to be rated B by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and BB- by Fitch Ratings Ltd. ("**Fitch**"). S&P and Fitch are established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). S&P and Fitch appear on the latest update of the list of registered credit rating agencies (as of 20 December 2018) on the European Securities and Markets Authority ("**ESMA**") website <http://www.esma.europa.eu>.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

JOINT LEAD MANAGERS

BOFA MERRILL LYNCH

CITIGROUP

LLOYDS BANK CORPORATE MARKETS

NATWEST MARKETS

Dated: 11 March 2019

CONTENTS

	Page
IMPORTANT NOTICES.....	1
IMPORTANT INFORMATION – FORWARD-LOOKING STATEMENTS.....	6
INFORMATION INCORPORATED BY REFERENCE.....	7
OVERVIEW.....	8
RISK FACTORS.....	16
TERMS AND CONDITIONS OF THE NOTES.....	77
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM.....	117
USE OF PROCEEDS.....	120
INFORMATION ON THE ISSUER.....	121
INFORMATION ON THE GROUP.....	124
DIRECTORS.....	129
DESCRIPTION OF THE ORDINARY SHARES.....	132
TAXATION.....	136
SUBSCRIPTION AND SALE.....	139
GENERAL INFORMATION.....	142

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in these Listing Particulars and declares that, having taken all reasonable care to ensure that such is the case, the information contained in these Listing Particulars to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

These Listing Particulars are to be read in conjunction with all information which is incorporated by reference herein. These Listing Particulars shall be read and construed on the basis that such information is incorporated by reference in, and forms part of, these Listing Particulars.

The Joint Lead Managers (as defined below) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in these Listing Particulars or any other information provided by the Issuer in connection thereto. None of the Joint Lead Managers accepts any liability in relation to the information contained or incorporated by reference in these Listing Particulars or any other information provided by the Issuer in connection thereto. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under these Listing Particulars.

To the fullest extent permitted by law, no Joint Lead Manager accepts any responsibility for the contents of these Listing Particulars, and no Joint Lead Manager accepts any responsibility for any statement made, or purported to be made, by any other Joint Lead Manager or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of these Listing Particulars or any such statement.

No person is or has been authorised by the Issuer or the Joint Lead Managers to give any information or make any representation regarding the Issuer or the Notes other than as contained in these Listing Particulars or as approved for such purpose by the Issuer or any of the Joint Lead Managers. Any such representation or information should not be relied upon as having been authorised by the Issuer.

Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of these Listing Particulars.

Neither these Listing Particulars nor any other information supplied in connection with these Listing Particulars or the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation (or a statement of opinion) by the Issuer or by any of the Joint Lead Managers that any recipient of these Listing Particulars or any other information supplied in connection with these Listing Particulars or the Notes should purchase the Notes. Each investor contemplating purchasing the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

These Listing Particulars do not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of these Listing Particulars and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor the Joint Lead Managers represent that these Listing Particulars may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or distribution of these Listing Particulars in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither these Listing Particulars nor any advertisement or 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 these Listing Particulars or the Notes may come must inform themselves about, and observe, any such restrictions on the distribution of these Listing Particulars and the offering and sale of the Notes. For a description of certain restrictions on offers and sales of the Notes and on distribution of these Listing Particulars, see "*Subscription and Sale*".

The Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

The Notes are not protected by the Financial Services Compensation Scheme (the "**FSCS**"). The Notes form part of the regulatory capital of the Issuer. Banks are required to hold regulatory capital to absorb losses (before depositors and other senior creditors suffer losses), including during periods of financial stress. As a provider of capital to the Issuer, an investor in the Notes should be prepared to suffer losses on its investment if, in particular, the Issuer and/or the financial sector generally approaches or enters into a period of financial stress. Such losses could be manifested in a number of ways, including (without limitation) that the market price of the Notes may fall significantly, the United Kingdom authorities could take action under the Banking Act 2009 as amended from time to time (or similar future legislation), or the Issuer could enter into an insolvent winding-up, with the result that investors in the Notes could lose all or substantially all of their initial investment in the Notes. Since the Notes are not protected by the FSCS, the FSCS will not pay any compensation to an investor under these, or any other, circumstances. Accordingly, an investor in the Notes may lose some, or the entire amount of, its investment in the Notes.

Restrictions on marketing and sales to retail investors

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions (including the United Kingdom), regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the UK Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**"). In addition: (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products ("**PRIIPs**") became directly applicable in all EEA member states; and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to: (i) the manufacture and distribution of financial instruments; and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors in the Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein) including the Regulations.

The Issuer and Citigroup Global Markets Limited, Lloyds Bank Corporate Markets plc, Merrill Lynch International and NatWest Markets Plc (together the "**Joint Lead Managers**") are each required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Joint Lead Managers that:

1. it is not a retail client (as defined in MiFID II);
2. whether or not it is subject to the Regulations, it will not:
 - (a) sell or offer the Notes (or any beneficial interest therein) to retail clients (as defined in MiFID II); or
 - (b) communicate (including the distribution of these Listing Particulars) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or

disseminated in such a way that it is likely to be received by a retail client (in each case within the meaning of MiFID II),

and in selling or offering the Notes or making or approving communications relating to the Notes prospective investors may not rely on the limited exemptions set out in the PI Instrument;

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction;
4. if you are a purchaser in Singapore, you are an accredited investor or an institutional investor as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) and you will not sell or offer the Notes (or any beneficial interest therein) to persons in Singapore other than such accredited investors or institutional investors;
5. you will act as principal in purchasing, making or accepting any offer to purchase any Notes (or any beneficial interest therein) and not as an agent, employee or representative of any of the Joint Lead Managers; and
6. if you are a Hong Kong purchaser, your business involves the acquisition and disposal, or the holding, of securities (whether as principal or as agent) and you fall within the category of persons described as "professional investors" under the Securities and Futures Ordinance (Cap.571) of Hong Kong (the "SFO") and any rules made under the SFO.

Each prospective investor further acknowledges that:

1. the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and
2. no key information document ("**KID**") under PRIIPs has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs.

Prohibition of sales to EEA retail investors - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, as amended or superseded ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no KID required by PRIIPs for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs.

MiFID II product governance / professional investors and eligible counterparties only target market

– Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and "Excluded Investment Products"

(as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Notes are complex financial instruments

The Notes are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. Each potential investor in the Notes should determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in these Listing Particulars;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the potential investor's currency is not pounds sterling;
- (iv) understand thoroughly the terms of the Notes, such as the provisions governing an Automatic Conversion (including, in particular, the circumstances under which a Trigger Event may occur) and the situations in which interest payments may or shall be cancelled; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes are legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in these Listing Particulars.

In these Listing Particulars, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**£**", "**Sterling**" or "**pounds sterling**" are to the lawful currency of the United Kingdom, references to "**U.S. dollars**", "**U.S.\$**" or "**\$**" are to the lawful currency of the United States of America, references to "**EU**" are to the European Union, references to "**EEA**" or "**European Economic Area**" are to the EU, Iceland, Norway and Liechtenstein and references to "**€**", "**EUR**", "**Euro**" and "**euro**" are to the currency introduced at the start of the third stage of the European economic and monetary union, as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "Stabilisation Manager") (or any person acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

In these Listing Particulars (other than in the section entitled "*Terms and Conditions of the Notes*"), references to the "**CYBG Group**" or to the "**Group**" are to the Issuer and its subsidiaries taken as a whole and references to the "**Virgin Money Group**" are to Virgin Money Holdings (UK) plc ("**Virgin Money**") and its subsidiaries taken as a whole and references to "**Clydesdale Bank**" are to Clydesdale Bank PLC.

Certain figures included in these Listing Particulars have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

IMPORTANT INFORMATION – FORWARD-LOOKING STATEMENTS

Some of the statements in these Listing Particulars include forward-looking statements which reflect the CYBG Group's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the CYBG Group's business). These forward-looking statements relate to the CYBG Group and the sectors and industries in which the 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.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, 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 the 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 these Listing Particulars.

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 these Listing Particulars speak only as of the date of these Listing Particulars, reflect the Issuer'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 the CYBG Group's operations, results of operations, growth strategy, capital and leverage ratios and liquidity. Investors should specifically consider the factors identified in these Listing Particulars which could cause actual results to differ before making an investment decision. All of the forward-looking statements made in these Listing Particulars are qualified by these cautionary statements. Specific reference is made to "*Risk Factors*" and "*Information on the Group*".

Subject to any obligations under listing and admission to trading rules of the Global Exchange Market (as amended from time to time), the Issuer 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 the CYBG Group or individuals acting on behalf of the CYBG Group are expressly qualified in their entirety by this section.

INFORMATION INCORPORATED BY REFERENCE

These Listing Particulars should be read and construed in conjunction with the following information:

- the unaudited first quarter trading update of the Issuer dated 6 February 2019, confirming the Issuer's trading results in respect of the three months to 31 December 2018 (the "**2019 First Quarter Trading Update**");
- the audited consolidated financial statements and the independent auditor's audit report of the Issuer in respect of the year ended 30 September 2018 and glossary set out on pages 172 to 254 (inclusive) of the Issuer's 2018 Annual Report and Accounts (the "**2018 Audited Financial Statements**");
- the audited consolidated financial statements and the independent auditor's audit report of the Issuer in respect of the year ended 30 September 2017 set out on pages 178 to 259 (inclusive) of the Issuer's 2017 Annual Report and Accounts (the "**2017 Audited Financial Statements**"); and
- the CYBG PLC Pillar 3 Report 2018 (the "**2018 Pillar 3 Disclosures**").

Such information shall be incorporated in, and form part of, these Listing Particulars, save that any statement contained in the information which is incorporated by reference herein shall be modified or superseded for the purpose of these Listing Particulars to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of these Listing Particulars.

Copies of the documents listed above may be obtained (without charge) during usual business hours at the registered office of the Issuer and will also be available to view (free of charge) on the website of the Issuer (<https://www.cybg.com/investor-centre/financial-results/>).

Those parts of the documents specified above which are not specifically incorporated by reference in these Listing Particulars should not form part of these Listing Particulars and are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in these Listing Particulars.

The 2019 First Quarter Trading Update contains unaudited pro forma condensed consolidated financial information for the Group in respect of the year ended 30 September 2018, half year ended 31 March 2018 and the year ended 30 September 2017 (the "Pro Forma Financial Information"). The Pro Forma Financial Information has been prepared on the basis that the combination with Virgin Money (the "Acquisition") had been completed. Further detail on the basis of the preparation of the Pro Forma Financial Information can be found in "Appendix 1 – Acquisition of Virgin Money", "Appendix 2 – Pro forma comparative financial information" and under the heading "Basis of preparation" in the 2019 First Quarter Trading Update. The Pro Forma Financial Information also includes key performance indicators that are used by management to monitor the Group's performance and are selected to meet a number of factors including statutory, regulatory and alternative performance measure requirements. Further detail can be found in the glossary on page 246 and 247 of the 2018 Audited Financial Statements, with an explanation of adjustments included on page 248 of the 2018 Audited Financial Statements.

The pro forma financial information has been prepared for illustrative purposes only and does not purport to represent what the actual consolidated financial position of the Group would have been if the Acquisition had occurred on the assumed dates, nor does it purport to project the Group's consolidated financial position at any future date. The Pro Forma Financial Information has not been prepared in accordance with the requirements of the Prospectus Directive, IFRS or any generally accepted accounting standards.

OVERVIEW

This overview must be read as an introduction to these Listing Particulars and any decision to invest in the Notes should be based on a consideration of these Listing Particulars as a whole, including the information incorporated by reference herein.

*This overview refers to certain provisions of the Terms and Conditions of the Notes (the "**Conditions**") and is qualified by the more detailed information contained elsewhere in these Listing Particulars. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in these Listing Particulars have the same meanings in this overview.*

Investing in the Notes involves significant risk. For a discussion of certain risks that should be considered in connection with an investment in the Notes, see "Risk Factors" beginning on page 15 of these Listing Particulars.

Issuer:	CYBG PLC
Trustee:	Citicorp Trustee Company Limited
Registrar:	Citigroup Global Markets Europe AG
Principal Paying Agent and Agent Bank:	Citibank, N.A., London branch
Joint Lead Managers:	Citigroup Global Markets Limited Lloyds Bank Corporate Markets plc Merrill Lynch International NatWest Markets Plc
Notes:	£250,000,000 9.25 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes
Issue Price:	100 per cent. of the principal amount of the Notes
Issue Date:	13 March 2019
Use of Proceeds:	The net proceeds of the issue of the Notes will be used for general corporate purposes of the Group including down-streaming of funds to Clydesdale Bank in the form of subordinated debt intended to qualify as Additional Tier 1 capital of Clydesdale Bank.
Status of the Notes:	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, ranking <i>pari passu</i> without any preference among themselves. In the event of a Winding-Up, the rights and claims of the Holders in respect of or arising from the Notes (including any damages (if payable)) will be subordinated to the claims of Senior Creditors.
Solvency Condition:	Except in a Winding-Up and subject to the right or obligation of the Issuer to cancel payments under the Conditions and the provisions on Automatic Conversion, all payments in respect of or arising from (including any damages awarded for breach of any obligation under) the Notes will be conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Notes (and any such payments will be deemed cancelled) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the " Solvency Condition ").

The Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Balance Sheet Condition has been met.

The "**Balance Sheet Condition**" shall be satisfied in relation to the Issuer if the value of its assets is at least equal to the value of its liabilities (taking into account its contingent and prospective liabilities), according to the criteria that would be applied by the High Court of Justice of England and Wales (or the relevant authority of such other jurisdiction in which the Issuer may be organised) in determining whether the Issuer is "unable to pay its debts" under section 123(2) of the U.K. Insolvency Act 1986 or any amendment or re-enactment thereof (or in accordance with the corresponding provisions of the applicable laws of such other jurisdiction in which the Issuer may be organised).

Ranking on a Winding-Up:

In the event of a Winding-Up, prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in the Conditions), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") ranking *pari passu* as to a return of assets on a winding-up with Parity Obligations and that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding-Up was an amount equal to the principal amount of the relevant Note and any Accrued Interest (to the extent not cancelled in accordance with the Conditions) and any damages awarded for breach of any obligations in respect of such Note.

If a Winding-Up occurs concurrently with or after the occurrence of a Trigger Event, and where an Automatic Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment or any issue or delivery of Conversion Shares by the Issuer), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of such number of Conversion Shares as that Noteholder would have been entitled to receive upon an Automatic Conversion in accordance with the Conditions.

"**Senior Creditors**" means creditors of the Issuer: (a) who are unsubordinated creditors of the Issuer; (b) whose claims are, or are expressed to be, subordinated (whether only in the event of a winding-up of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer but not further or otherwise; or (c) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders in a winding-up occurring prior to the Trigger Event.

No Set-off:

Subject to applicable law, no Noteholder may exercise or claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection

with, the Notes or the Trust Deed and each Noteholder will, by virtue of their holding of any Note, be deemed, to the fullest extent permitted by applicable law, to have waived all such rights of set-off, compensation or retention.

Interest:

The Notes shall bear interest on their outstanding principal amount from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 9.25 per cent. per annum. From (and including) each Reset Date to (but excluding) the next following Reset Date, the Notes will bear interest at a rate which is the aggregate of the margin of 8.307 per cent. and the Reset Reference Rate in respect of the Reset Period (expressed as a rate per annum) (as determined by the Agent Bank on the date falling two Business Days prior to the relevant Reset Date). Subject to the conditions set out herein, interest, if any, shall be payable semi-annually in arrear on 8 June and 8 December of each year, except that the first date on which interest may be paid will be 8 June 2019 in respect of the period beginning on (and including) the Issue Date and ending on (but excluding) 8 June 2019.

Discretionary cancellation of interest:

The Issuer may at all times elect at its full discretion to cancel (in whole or in part) the Interest Amount otherwise scheduled to be paid on any Interest Payment Date. See "*Non-payment of interest sufficient evidence of cancellation*", "*Notice of interest cancellation*" and "*Effect of interest cancellation*" below.

Mandatory cancellation of interest:

To the extent required to do so under the then prevailing Regulatory Capital Requirements (pursuant to Condition 6(a) (*Cancellation of Interest*)), the Issuer will cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date to the extent that:

- (a) such Interest Amount (or part thereof), when aggregated together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current financial year on all other own funds items of the Issuer (excluding any such interest payments or distributions which are not required to be paid or made out of Distributable Items or which have already been provided for, by way of deduction, in calculating the amount of Distributable Items), exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date;
- (b) such Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date if and to the extent that such Interest Amount (or part thereof) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced or any other relevant provision of applicable law), the Maximum Distributable Amount (if any) then applicable to the Group (as defined in the Conditions) to be exceeded.

"Maximum Distributable Amount" means any applicable maximum distributable amount relating to the Group required to be calculated in accordance with Article 141 of the CRD IV Directive (or, as the case may be, any provision of applicable law transposing or implementing the CRD IV Directive, as

amended or replaced or any other relevant provision of applicable law); or

- (c) the Solvency Condition is not satisfied in respect of such Interest Amount (or part thereof).

Non-payment of interest sufficient evidence of cancellation

If the Issuer does not pay an Interest Amount (or part thereof) on the relevant Interest Payment Date, such non-payment shall evidence the cancellation of such Interest Amount in accordance with the Conditions, and accordingly such Interest Amount shall not in any such case be due and payable.

Notice of interest cancellation:

The Issuer shall provide notice of any cancellation of an Interest Amount (or part thereof) to the Noteholders, the Trustee and the Agents as soon as possible. If practicable, the Issuer shall endeavour to provide such notice at least five Business Days prior to the relevant Interest Payment Date. Any failure to provide such notice shall not affect the cancellation of any Interest Amount (or any part thereof) by the Issuer and shall not constitute a default for any purpose.

Effect of interest cancellation:

The non-payment or cancellation of any Interest Amount (or any part thereof) in accordance with the Conditions shall not constitute a default for any purpose on the part of the Issuer. For the avoidance of doubt, interest payments are non-cumulative and Holders shall have no right to any cancelled Interest Amount.

Form and Denomination:

The Notes will be issued in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented by a Global Certificate registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg (together, the "**Clearing Systems**"). Individual Certificates in definitive form evidencing holdings of Notes will only be available in certain limited circumstances – see "*Summary of Provisions relating to the Notes in Global Form*".

Perpetual Notes:

The Notes will be perpetual notes and have no fixed maturity or fixed redemption date.

Optional Redemption:

Subject to obtaining Supervisory Permission and compliance with the Regulatory Preconditions, the Notes may be redeemed at the option of the Issuer on the First Reset Date and on any Reset Date thereafter in whole but not in part, at an amount equal to their principal amount together with any Accrued Interest.

Tax Redemption:

Subject to obtaining Supervisory Permission and compliance with the Regulatory Preconditions, if at any time a Tax Event occurs, the Issuer may redeem the Notes in whole, but not in part, at any time at an amount equal to their principal amount, together with any Accrued Interest, as more fully provided in Condition 8 (*Redemption and Purchase*).

Regulatory Event Redemption:

Subject to obtaining Supervisory Permission and compliance with the Regulatory Preconditions, if at any time a Regulatory Event occurs, the Issuer may redeem the Notes in whole, but not in part, at an amount equal to their principal amount together with any Accrued Interest, as more fully provided in Condition 8 (*Redemption and Purchase*).

Notice of Redemption:

Any redemption of the Notes shall be subject to the Issuer providing not less than 30 calendar days' nor more than 60 calendar days' prior notice to the Noteholders, the Trustee and the Agents (which notice shall, except in the limited circumstances described in the following

paragraph, be irrevocable). The Issuer shall not be entitled to deliver a notice of redemption after an Automatic Conversion Notice has been delivered.

If the Issuer has elected to redeem the Notes but (i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption or (ii) prior to the redemption a Trigger Event occurs, the relevant redemption notice shall be of no force and effect and no payment of the redemption amount will be due and payable. In the case of (i), the Issuer shall give notice thereof to the Noteholders, the Trustee and the Agents as soon as practicable or, in the case of (ii), the Automatic Conversion shall occur as described below under "*Automatic Conversion on a Trigger Event*" below.

Purchases: The Issuer or any of its Subsidiaries may, at its option but subject to the Solvency Condition and Supervisory Permission, purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements.

Trigger Event: A "**Trigger Event**" shall occur if the Common Equity Tier 1 Capital Ratio of the Group (as defined in the Conditions) falls below 7.00 per cent.

Conversion Price: The Conversion Price of the Notes will be £1.19 per Conversion Share, subject to adjustment in accordance with certain anti-dilution adjustments (the "**Conversion Price**").

Automatic Conversion on a Trigger Event: If a Trigger Event occurs at any time, then an Automatic Conversion will occur on the Conversion Date, at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient in accordance with the terms of the Notes) on the Conversion Date at the then prevailing Conversion Price. Under no circumstances shall such released obligations be reinstated. The Automatic Conversion shall occur without delay upon the occurrence of a Trigger Event and by no later than one month following such Trigger Event (or such shorter period as the Competent Authority may then require).

Whether a Trigger Event has occurred shall be determined by the Issuer or the Competent Authority and such determination shall be binding on Noteholders.

The Issuer shall immediately notify the Competent Authority of the occurrence of the Trigger Event and shall deliver an Automatic Conversion Notice to the Holders, the Trustee and the Agents without delay after such time.

The Notes will not be convertible into Conversion Shares at the option of the Noteholders at any time.

Consequences of Automatic Conversion: Following an Automatic Conversion, no Holder will have any rights against the Issuer with respect to the repayment of the principal amount of the Notes or the payment of interest or any other amount on or in respect of such Notes, which liabilities of the Issuer shall be irrevocably and automatically released and, accordingly, the principal amount of the Notes shall equal zero at all times thereafter. Any Interest Amount in respect of an Interest Period ending on any Interest Payment Date falling between the date of a Trigger Event and the Conversion Date shall be deemed to have been automatically and irrevocably cancelled

upon the occurrence of such Trigger Event and shall not be due and payable.

Following the issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as applicable) on the Conversion Date, the Notes shall remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the Holder's right to receive Conversion Shares or, if the Issuer elects that a Conversion Shares Offer be made as described under "*Conversion Shares Offer*" below, Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary (or such other relevant recipient).

The Issuer currently expects that beneficial interests in the Notes will be transferable until the Suspension Date and that any trades in the Notes would clear and settle through the Clearing Systems until such date. However, there is no guarantee that an active trading market will exist for the Notes following the Automatic Conversion. The Notes may cease to be admitted to listing on the official list of Euronext Dublin and to trading on the Global Exchange Market before or after the Suspension Date.

Provided that the Issuer issues and delivers the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as contemplated above) in accordance with these Conditions, with effect from the Conversion Date, Holders shall have recourse only to the Conversion Shares Depositary (or to such other relevant recipient, as applicable) for the delivery to them of Conversion Shares or of any Conversion Shares Offer Consideration to which such Holders are entitled.

Conversion Shares:

The Conversion Shares shall initially be registered in the name of the Conversion Shares Depositary (which shall hold the Conversion Shares on behalf of the Holders) or the relevant recipient in accordance with the Conditions, and each Holder shall be deemed to have irrevocably directed the Issuer to issue the Conversion Shares corresponding to the conversion of its holding of Notes to the Conversion Shares Depositary (or to such other relevant recipient).

The number of Conversion Shares to be issued to the Conversion Shares Depositary on the Conversion Date shall be determined by dividing the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date by the Conversion Price prevailing on the Conversion Date rounded down, if necessary, to the nearest whole number of Conversion Shares. Fractions of Conversion Shares will not be issued following an Automatic Conversion and no cash payment will be made in lieu thereof.

The number of Conversion Shares to be held by the Conversion Shares Depositary for the benefit of each Holder shall be the number of Conversion Shares thus calculated multiplied by a fraction equal to the aggregate amount of the Authorised Denomination of the Notes held by such Holder divided by the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date, rounded down, if necessary, to the nearest whole number of Conversion Shares.

Conversion Shares Offer:

No later than 10 Business Days following the Conversion Date, the Issuer may, in its sole and absolute discretion, elect that the Conversion Shares Depositary make an offer of all or some of the Conversion Shares to all or some of the Issuer's ordinary shareholders at such time

at a cash price per Conversion Share equal to the Conversion Price, subject as provided in Condition 9 (*Automatic Conversion—Conversion Share Offer*) (the "**Conversion Shares Offer**"). The Issuer may, on behalf of the Conversion Shares Depositary, appoint a Conversion Shares Offer Agent to act as placement or other agent to facilitate the Conversion Shares Offer. The Issuer will deliver a Conversion Shares Offer Notice to the Trustee directly and to the Holders within 10 Business Days following the Conversion Date specifying whether or not it has elected that a Conversion Shares Offer be conducted. If so elected, the Conversion Shares Offer Period, during which the Conversion Shares Offer may be made, shall end no later than 40 Business Days after the giving by the Issuer of the Conversion Shares Offer Notice.

The Issuer reserves the right, in its sole and absolute discretion, to terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period by providing at least three Business Days' notice to the Trustee directly and to the Holders, and, if it does so, the Issuer may, in its sole and absolute discretion, take steps (including changing the Suspension Date) to deliver to Holders the Conversion Shares at a time that is earlier than the time at which they would have otherwise received the Conversion Shares Offer Consideration had the Conversion Shares Offer been completed.

Upon completion of the Conversion Shares Offer, the Issuer or the Conversion Shares Depositary will provide notice to the Trustee and the Holders of the composition of the Conversion Shares Offer Consideration (and of the deductions to the cash component, if any, of the Conversion Shares Offer Consideration (as set out in the definition of Conversion Shares Offer Consideration)) per Calculation Amount.

Any Conversion Shares Offer shall be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Issuer, in its sole and absolute discretion, determines that the Conversion Shares Offer is practicable.

Settlement Procedures: The Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will be delivered to Holders pursuant to Condition 9(e) (*Automatic Conversion—Settlement Procedure*).

Defaults and Enforcement: The remedies under the Notes will be more limited than those typically available to unsubordinated creditors. The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes will be, subject to certain conditions, for the Trustee to institute proceedings in England (or such other jurisdiction in which the Issuer may be organised) (but not elsewhere) for the winding-up of the Issuer and/or to prove and/or to claim in a Winding-Up. The Notes will only be capable of being accelerated upon the occurrence of a Winding-Up Event.

Rating: The Notes are expected to be rated B by S&P and BB- by Fitch. S&P and Fitch are established in the EEA and registered under the CRA Regulation. S&P and Fitch appear on the latest update of the list of registered credit rating agencies (as of 20 December 2018) on the ESMA website <http://www.esma.europa.eu>.

Taxation: All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or

assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts in respect of any interest on the Notes but not, for the avoidance of doubt, in respect of the payment of any principal in respect of the Notes, as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as described in Condition 11 (*Taxation*).

Governing Law:	The Notes, the Trust Deed and the Agency Agreement, and any non-contractual obligations arising out of or in connection with them will be governed by English law.
Listing and Trading:	Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin (" Euronext Dublin ") for the approval of these Listing Particulars. Applications have been made to Euronext Dublin for the Notes to be admitted to the official list of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin. The Notes may cease to be admitted to the Official List of Euronext Dublin and to trading on the Global Exchange Market before or after the Suspension Date.
Clearing Systems:	Euroclear and Clearstream, Luxembourg
ISIN:	XS1959441640
Common Code:	195944164
CFI:	DYFXXR
FISN:	CYBG PLC/9.25EUR NT PERP SUB
Issuer Legal Entity Identifier (LEI):	213800ZK9VGCYYR6O495

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should consider carefully risk factors associated with any investment in the Notes, the business of the Group and the industry(ies) in which it operates together with all other information contained in these Listing Particulars, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in these Listing Particulars have the same meanings in this section.

Prospective investors should note that the risks relating to the Group, the macro-economic environment in which it operates and the Notes are the risks that the Issuer believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Notes. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider among other things, the additional risks and uncertainties described below.

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

1. RISKS RELATING TO THE GROUP

1.1 The Group is subject to risks arising from macro-economic conditions in the UK or globally

The Group's business is subject to inherent risks arising from macro-economic conditions in the UK. In particular, levels of retail and small and medium-sized enterprise ("SME") borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, employment trends, the level of inflation, market interest rates and the broader state of the UK economy.

The evolution of the geo-political environment can also be expected to have a material impact on business performance with ongoing uncertainties around the potential impacts of the UK's withdrawal from the European Union (see "*— Risks relating to the Group — Risks in relation to the UK's vote to leave the EU*"). The above will affect the future performance of the UK economy and subsequently the banking industry. The extent to which any individual event or a combination of these events will have an impact on the performance of the economy will evolve over the medium term.

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

The Group's operations are focussed in its core regions in the UK, including Scotland. These operations 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 the Group or adversely impact the financial performance and prospects of its customers. Another referendum on Scottish independence which results in Scotland leaving the UK would exacerbate these issues and impact the Group's associated costs, business, results of operations, financial condition and prospects.

In addition, changes in global economic conditions or circumstances (in particular in the Eurozone) may have secondary consequences that adversely impact the Group's results of operations and financial condition. For example, 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 (the "**BoE**"), may tighten their monetary policy to increase interest rates back to levels closer to historical norms. 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.

In addition, volatility in credit, currency and equity markets globally may result in uncertainty that could affect all banks, including the 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 historical results of operations and financial condition of the Group have been and 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 the Group's business, capital position, financial condition, results of operations and prospects.

1.2 **The Group will be subject to risks related to volatility in UK house prices**

The Group's primary activity is providing banking services to retail customers and to micro businesses and 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 the Group's net interest income is derived from interest paid on its mortgage portfolio. As at 31 December 2018, 83 per cent. of the Group's customer loans by value were mortgages (both owner-occupied and buy-to-let). Any deterioration in the quality of the 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 the Group. Higher impairment provisions could reduce its 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 the Group's business, financial condition, results of operations and prospects.

In addition, a significant increase in house prices could have a negative impact on the 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 UK house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting the Group's ability to grow its mortgage portfolio in the UK.

The UK Government's intervention into the housing market over the past few years, 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 ("**FLS**") and the "Term Funding Scheme" ("**TFS**"), may also contribute to volatility in house prices. Whilst it is not possible to confirm a direct link between the TFS, bank lending and mortgage rates, the rates offered by UK banks fell following the introduction of the TFS, which ran until February 2018 and the closure of the TFS may impact lending and therefore house prices. Similarly, as the TFS reaches its final maturity in 2022, UK banks will have to replace these funds from other sources which may be at a higher cost, which could lead to lower lending and/or higher mortgage interest rates and which could also 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 that came into force in April 2014, and amended the existing rules on mortgage lending with changes centred 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.

For information on the Group's exposure to the TFS, please refer to the risk factor entitled "*The Group is subject to risks relating to the availability of liquidity and funding at a commercially acceptable cost*".

Furthermore, the introduction of 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 demand. Borrowers of buy-to-let mortgages have benefitted in recent years from a combination of low interest rates, rising house prices and increasing rents. First time buyers have struggled to raise the required deposit to allow them to purchase their own homes. 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 the Group's buy-to-let mortgage book could deteriorate, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The future impact of these changes 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 (2014/17/EU) which came into force in March 2016, whether or not the 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 the Group's business, financial condition, results of operations and prospects.

1.3 The Group is exposed to risks relating to the supply and affordability of property in the UK

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

In October 2014, the UK Prudential Regulation Authority (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, a BoE committee responsible for ensuring financial stability. For the 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.

The 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. A decrease in housing transaction volumes could lead to a reduction in demand for owner-occupied mortgages and a fall in related mortgage revenues, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Average house prices in the UK have generally been on an upward trend since February 2009, but the annual rate of house price growth has generally slowed since the end of 2014. If UK house prices were, in the future, to begin to follow a falling trend or if house prices in those regions that the Group has significant exposure begin to follow a falling trend, in particular in Scotland, the North of England, the South East of England and London, this would be likely to result in an increase in the Group's residential mortgage loan impairment charges as the value of the security underlying its mortgage loans is eroded. Higher impairment charges could reduce the Group's profitability, capital and its ability to engage in lending and other income generating activities and, therefore, could have a material adverse effect on the Group's business and potentially on its ability to implement its medium-term growth strategy.

The 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, coupled with the introduction in 2017 of stricter affordability tests and the stress-testing of interest rate rises, could reduce the potential returns from buy-to-let properties. In addition, the introduction of provisions to limit the income tax relief on mortgage interest expense on residential property available to buy-to-let landlords from 6 April 2017, will result in lower net yields on mortgaged buy-to-let property investments. These factors, and the introduction of a 3 per cent. stamp duty surcharge on purchases of buy-to-let and second homes that applies to sales completed on or after 1 April 2016 have made the purchase of buy-to-let properties a less viable investment opportunity and has reduced the demand for buy-to-let mortgages.

1.4 **The Group is subject to risks associated with interest rate levels and volatility**

Interest rates, which are impacted by factors outside of the 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 the 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 the 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 wholesale funding from the capital markets, in the form of residential mortgage backed securities ("**RMBS**"), covered bonds and senior debt. The sustained low interest rate environment in recent years has resulted in the Group's absolute 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, potentially affected 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 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 the Group.

The Group raises funding from a number of wholesale sources, including secured funding through RMBS and covered bond programmes, senior debt from its global medium term note programme and shorter-term wholesale funding. The Virgin Money Group also sources a proportion of its funding in the wholesale markets, including funding through its RMBS securitisations and its global medium term note programme, 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 the Group's impairment levels, particularly because (if passed on to customers) 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 the 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 may result in other forms of financing, such as equity capital for SMEs, becoming more attractive, thereby reducing the 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. This may be exacerbated when interest rates change frequently.

Thirdly, interest rates affect the Group's net interest income and margins. As at the date of these Listing Particulars, the BoE base rate was 0.75 per cent., having been held at 0.50 per cent. since March 2009 and reduced in August 2016 to 0.25 per cent., before being increased back to 0.50 per cent. in November 2017 and raised to 0.75 per cent. in August 2018. 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 impacted net interest income and margins throughout the UK banking industry, including at the Group.

Over the last few years, the sustained period of low interest rates resulted in lower returns on low interest bearing and non-interest bearing current accounts and capital, reducing the Group's net interest income and net interest margin. The 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 the event of sudden, large or frequent increases in interest rates, the 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.

Moreover, the Group's variable rate savings accounts and other floating rate liabilities expose the Group to the risk of increased costs if interest rates increase. In an increasing interest rate environment, the 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.

If the 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 its business, financial condition, results of operations and prospects.

1.5 **Risks in relation to the UK's vote to leave the EU**

On 23 June 2016, the UK voted to leave the EU in a referendum (the "**UK Referendum**"). Following the UK Government's decision to invoke Article 50 of the Treaty on the EU on 29 March 2017, it is expected that the UK will leave the EU in March 2019, although this deadline could be extended or a transitional arrangement put in place, subject to agreement by all EU member states. At this stage, the nature of the relationship between the UK and the EU following the UK's exit (the "**EU27**") has yet to be agreed and negotiations with the EU on the terms of the exit have demonstrated the difficulties that exist in reaching such an agreement. In addition to the economic and market uncertainty this brings (see "*—(d) Market uncertainty*" below), there are a number of other potential risks which may arise as a result of the UK Referendum result. If any of these risks materialise, they could have a material adverse effect on the Group's business, prospects or results of operations:

(a) ***Political uncertainty***

Following the UK Referendum, the UK has entered into a period of political uncertainty. Such uncertainty could lead to a high degree of economic and market disruption and legal uncertainty. It is not possible to ascertain how long this period will last and the impact it

will have on the UK in general. The Issuer cannot predict when or if political stability will return.

(b) ***Legal uncertainty***

A significant proportion of English and Scots law currently derives from or is designed to operate in concert with EU law. This is especially true of English and Scots law relating to financial markets, financial services, prudential and conduct regulation of financial institutions, bank recovery and resolution, payment services and systems, settlement finality, market infrastructure and mortgage and consumer credit regulation. Depending on the timing and terms of the UK's exit from the EU, significant changes to English and Scots law in areas relevant to the Group can be expected. The Issuer cannot predict what any such changes will be. This could increase uncertainty and compliance costs for the Group.

(c) ***Regulatory uncertainty***

There is significant uncertainty about how EU27 financial institutions with assets (including branches) in the UK will be regulated and *vice versa*. At present, the EU single market regulation allows regulated financial institutions (including credit institutions, investment firms, alternative investment fund managers, insurance and reinsurance undertakings) to benefit from a passporting system for regulatory authorisations required to conduct its businesses, as well as facilitating mutual rights of access to important elements of market infrastructure such as payment and settlement systems. EU law is also the framework for mutual recognition of bank recovery and resolution regimes.

Once the UK ceases to be an EU Member State, the current passporting arrangements will cease to be effective, as will the current mutual rights of access to market infrastructure and current arrangements for mutual recognition of bank recovery and resolution regimes. The ability of regulated financial institutions to continue to do business between the UK and the EU after the UK ceases to be an EU Member State would therefore be subject to separate arrangements between the UK and the EU, in respect of which negotiations are ongoing. There can be no assurance that there will be any such arrangements concluded and, if they are concluded, on what terms. The Group may therefore be at risk of losing the ability to passport into EU Member States. Currently, as set out in the Financial Services Register, Clydesdale Bank has the ability to exercise passporting rights to certain EEA jurisdictions and exercises those rights. None of the regulated entities within the Virgin Money Group currently exercises passporting rights into EEA countries. The loss of passporting would, therefore, impact the Group's ability to carry out business in EEA countries. The Group would be impacted by this loss to the extent that it proposes to carry out regulated activities in EEA countries, but its UK customer base and operations would not be directly impacted.

(d) ***Market uncertainty***

Since the UK Referendum, there has been volatility and disruption of the capital, currency and credit markets, including the market for debt and equity securities.

(e) ***Wider UK constitutional implications***

The UK Referendum has also caused renewed constitutional debate within the UK. Majorities of voters in both Scotland and Northern Ireland voted to remain in the EU. Senior political figures in both Scotland and Northern Ireland have suggested that they have a mandate from their voters to remain in the EU and might seek to leave the UK in order to achieve that outcome. On 28 March 2017, the Scottish Parliament gave approval for a motion to grant the Scottish Government a mandate to begin discussions with the UK Government over an independence referendum for Scotland. However, the UK Prime Minister has indicated that the UK Government does not support an independence referendum for Scotland prior to the UK exit from the EU. There is therefore inherent uncertainty surrounding the potential for a Scottish independence referendum.

A future departure of Scotland from the UK could impact the fiscal, monetary and regulatory landscape to which the Group is subject and may create additional costs for them (including changes to pension arrangements, costs of regulatory compliance and, if deemed necessary, a change of headquarters to England). While the operational consequences of independence remain uncertain, it could (1) result in changes to the economic climate in Scotland and political and policy developments, (2) have an impact on Scots law, regulation accounting or administrative practice in Scotland, and/or (3) result in Scotland not continuing to use pounds sterling as its base currency.

Risks and uncertainties associated with a departure of Scotland from the UK could materialise both before any referendum for independence takes place and, in addition, in the case of a vote for independence, after the referendum but before independence.

(f) **Rating actions**

The UK Referendum has resulted in downgrades of the UK sovereign by the major credit rating agencies. S&P and Fitch have a negative outlook and watch, respectively, on the UK sovereign rating, suggesting a possibility of further negative rating action.

The rating of the sovereign may affect the ratings of entities operating in its territory, and in particular the ratings of financial institutions. Further downgrades of the sovereign rating may result in downgrades of the Group's ratings and Group entities, which may increase its borrowing costs or challenge its access to wholesale funding from capital markets. Following a reassessment of their probability of a no-deal disruptive Brexit scenario, on 1 March 2019, Fitch placed the BBB+ long-term Issuer Default Ratings of CYBG and its subsidiaries on Rating Watch Negative. This was part of a wider action on a number of UK banks. None of the Group's other ratings were impacted.

1.6 **The Group faces risks associated with the implementation of its medium-term growth strategy**

The Group faces a variety of risks associated with the implementation of its medium-term growth strategy. A failure to achieve its strategic objectives including driving sustainable customer growth, improving efficiency and optimising capital, as described in more detail in the section titled '*Information on the Group*', would have an adverse impact on the 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 Notes in the secondary market.

Risks associated with the Group's strategy to drive sustainable customer growth in its loan portfolio and deposit base

In seeking to grow its mortgage, SME lending and unsecured personal lending books, the 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. The 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 the 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 the Group fails to manage these risks adequately, it could result in legal or regulatory action against the Group, reputational damage to its brands and adverse impacts on the implementation of its medium-term growth strategy.

The Group's continued 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 the Group considers to be commercially acceptable. A key component of the Group's medium-term growth strategy is to grow its retail and SME deposits, and in particular to increase the volume of new PCA and BCA accounts, in order to fund

the growth of its business and maintain the loans-to-customer deposits ratio ("**LDR**") at its targeted level. Access to customer deposits is subject to competition and market factors that are outside of the Group's control, and accordingly it 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. The Group may not be able to obtain and maintain access to sufficient customer deposits, or other sources of funding at costs which are commercially acceptable, to finance its planned medium-term growth.

Risks associated with the Group's digital strategy

A core part of the Group's medium-term growth strategy is strengthening its digital platform to support the delivery of a consistent and seamless experience for customers through the Group's omni-channel distribution platform, creating new digital propositions to support new customer acquisition and customer retention, and simplifying its operating platform to drive efficiency, process simplification and customer acquisition. If the Group fails to successfully execute its digital strategy, fails to invest sufficiently, fails to invest to the same extent as its competitors, fails to invest in appropriate technologies or customers (in particular SME customers), or fails to adopt the high-tech, light touch service model that the Group's medium-term growth strategy anticipates, the Group's business, results of operations, financial condition and prospects could be materially adversely affected. The Group also may be required to make further expenditure or investments (such as marketing, customer incentives or pricing changes) in order to achieve its 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 it to adapt its plans and/or revise its strategy, causing delay in its implementation or resulting in additional costs. There is a risk that the execution of the Group's digital strategy will increase the demands on its existing on-boarding, monitoring and screening IT systems. The failure of any of these IT systems to meet such increased requirements could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. 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 the Group's business, results of operations, financial condition and prospects.

A risk event, such as compliance breaches, cyber-enabled crime and fraud (for further information, see the risk factor entitled "*The Group is exposed to risks associated with cyber-enabled crime and fraud*"), or a significant operational or technology failure, may adversely affect the execution of the Group's digital strategy, which could lead to a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Execution and other risks associated with the Group's medium-term growth strategy

The Group's ability to implement its medium-term growth strategy and any future 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 its medium-term growth 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, the Group may fail to achieve management's guidance, targets or expectations in respect of the 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 the Group's asset quality, cost-to-income, jaws, CET1 capital and/or LDR, or other financial or key performance indicators. Following the acquisition of Virgin Money, there is a risk that additional spend will be required to align the information security control on Virgin Money's applications and infrastructure to the Issuer's existing security posture, there is also a risk that a greater than expected level of complexity in the integration of Virgin Money's business and system with the Issuer will be encountered, either of which could result in increased costs and could have a material adverse effect on the Group's business, results of operation, financial condition and prospects.

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. The risk 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 or in relation to the payment of dividends. A failure to successfully manage the implementation of its medium-term growth strategy for the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group plans to communicate an updated medium-term strategy at a capital markets day on 19 June 2019.

1.7 **The Group is subject to risks associated with compliance with a wide range of laws and regulations**

The 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 the Group, are subject to a high level of scrutiny by regulatory bodies (including the BoE, the FCA, the PRA, the Payment Systems Regulator, the UK Competition and Markets Authority (the "CMA"), the Pensions Regulator and the UK Information Commissioner's Office (the "ICO")) regarding the treatment of customers and also by the press and politicians. Financial institutions, including the Group and its employees, have also been subject to customer complaints and regulatory investigation and/or enforcement action regarding mis-selling of financial products, adequacy of systems and controls, handling of customers in arrears and conduct leading to customer detriment 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, the 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 and certain tailored business loans, with additional features such as interest rate protection functionality, structured collars, collars or caps and fixed rate tailored business loans to SMEs and other conduct-related matters. Further information is provided in risk factor entitled "*The Group faces risks relating to complaints and redress issues from sales of historic financial products, which may not be covered by existing provisions*" below.

Regulatory enforcement actions pose a number of risks to the 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, the 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 the Group, see "*Regulatory Risks*" below. All of these issues could have a negative effect on the Group's reputation and the confidence of its customers in the Group, as well as taking a significant amount of management time and resources away from the execution of the Group's strategy and the operation of its business.

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

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

The Group offers its full-service retail and SME banking proposition through its "Clydesdale Bank", "Yorkshire Bank" and "B" brands. The Issuer has reached an agreement with Virgin Enterprises Limited ("**Virgin Enterprises**") that permits the Group, subject to certain exclusions and reservations of rights, exclusive and perpetual access to use the "Virgin Money" brand in respect of all banking and financial services and products which are offered in the ordinary course of business by UK clearing banks, challenger banks, all investment or savings products and services, and all insurance products and services, as well as certain related non-exclusive rights to use the "Virgin" trademarks. Any event or circumstance that causes damage to the Group or its brands could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group's brands may be damaged by the actions, behaviour or performance of its employees, affiliates, suppliers, counterparties, regulators, customers and/or other activists, or the financial services industry generally. A risk event, such as compliance breaches, cyber-enabled crime and fraud (for further information, see the risk factor below entitled "*The Group is exposed to risks associated with cyber-enabled crime and fraud*"), or a significant operational or technology failure, or a fall in customer service levels, or demonstrations by customers and/or other activists, may cause business disruption or adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, employees, regulators or rating agencies. A risk event itself may expose the 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 the Issuer's share price. There is also a risk that customers may not support or may be deterred by the rebranding of the Issuer's business and/or the ongoing use of the "Virgin Money" brand, which may adversely impact the Group's business, results of operations, financial condition and prospects.

In particular, the "Virgin" brand is used in a wide range of different economic sectors in the UK and internationally. Following the acquisition of Virgin Money, the Group is exposed to the risk that others associated with the "Virgin" brand, including Sir Richard Branson and his family or other companies which use the "Virgin" brand, may bring the brand into disrepute. The "Virgin" brand is positioned as an innovative brand and many of the ventures to which it is attached are in the public eye. The Group faces the risk that should any of such innovative activities not be successful, this will be heavily reported and there may be a negative effect on the reputation and the strength of the "Virgin" brand which may have similar consequences for the "Virgin Money" brand or the Group and its brands generally. Furthermore, should Sir Richard Branson cease to be connected to the "Virgin" brand, for example, through exiting the business or upon his death, the goodwill of the "Virgin" brand, especially the brand's popularity with consumers, may suffer a decline which may have similar consequences on the "Virgin Money" brand.

Reputational damage to the Group or its brands may adversely impact the 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 the Group, which could adversely impact the cost of funding its operations and its financial condition.

1.9 **The Group may lose the right to use the "Virgin" and "Virgin Money" brands (which it does not own)**

Following the acquisition of Virgin Money, in order for the Group to use the "Virgin" and "Virgin Money" names and brands (which it will not own), the Group is required to comply with certain obligations under the brand licence agreement entered into between the Issuer and Virgin Enterprises (the "**Brand Licence Agreement**"). The Brand Licence Agreement has a perpetual term. Virgin Enterprises has the right to terminate the Brand Licence Agreement in certain circumstances, including amongst other things: (i) if the Issuer challenges Virgin Enterprises' ownership of, entitlement to license and/or the validity of the licensed trade marks; (ii) on the Issuer's insolvency; (iii) upon the Issuer's material, unremedied breach of the Brand Licence Agreement; (iv) if the Issuer undergoes a change of control and the acquirer is a direct competitor of Virgin Enterprises (or any of its licensees) in the UK, or an entity involved in any business or activity, or possessing a reputation or financial standing which would be reasonably likely to materially damage the value or reputation of the "Virgin Money" or "Virgin" brands; and (v) the

Issuer's failure to comply with the must-use requirement under the Brand Licence Agreement (which requires, following the rebranding period (which is expected to end no later than 3 years from the completion of the Part VII Transfer) at least 80 per cent. of the Group's turnover to be generated under the marks licensed by Virgin Enterprises). In certain circumstances, the termination of the Brand Licence Agreement by Virgin Enterprises for cause entitles it to receive a termination fee from the Issuer in lieu of a damages claim. Loss of the Group's rights to use the "Virgin" and "Virgin Money" names and brands under the Brand Licence Agreement could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Virgin Enterprises may allow other Virgin Enterprises licensees to use the "Virgin" name and brand for financial products and services in certain defined circumstances. The use by any other Virgin Enterprises licensee of the "Virgin" name in relation to financial services and products may represent a dilution of the Group's exclusivity in the financial services field, and could: (i) cause customer confusion and (ii) create potential reputational damage if the Virgin Enterprises licensee providing the ancillary financial products or services does anything that damages the goodwill of the brand.

1.10 The strength and recognition of the Group's existing brands may diminish following the acquisition of Virgin Money

As, following the rebranding period, at least 80 per cent. of the Group's turnover is required to be generated under the marks licensed by Virgin Enterprises, there is a risk that the strength and recognition of Group's "B", "Clydesdale Bank" and/or "Yorkshire Bank" brands could be diminished.

Whilst the Group intends to use the "Virgin Money" brand for its retail operations and the Issuer, at the date of these Listing Particulars, believes that the brand has potential in the SME market, particularly in light of its entrepreneurial spirit, a decision as to whether to use the "Virgin Money" brand for SME operations will only be made following a period of testing with existing Group SME customers. If the Group decides not to use the "Virgin Money" brand for its SME operations and to continue to use its existing "B", "Clydesdale Bank" and/or "Yorkshire Bank" brands, there is a risk that the strength of those brands and their recognition in the market could be diminished due to the Group's other products and operations no longer carrying the same brands.

Furthermore, in the event that the Group is required to (or decides to) cease use of the "Virgin" or "Virgin Money" brands in the future, there is a risk that its existing "B", "Clydesdale Bank" and "Yorkshire Bank" brands will no longer benefit from the same level of customer recognition in the market which they currently receive, which could affect the Group's competitive position and dampen growth prospects. In addition, if the Issuer ceases to use its current brands for a period of five years, the trade mark registrations for those brands will become vulnerable to revocation and the Group will lose the ability to enforce them against third parties.

1.11 There are risks relating to the proposed Part VII Transfer of all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc

On 15 October 2018, CYBG acquired the entire issued share capital of Virgin Money pursuant to the Acquisition. In addition to the broader risk factors relating to the integration between the legacy CYBG Group and the legacy Virgin Money group as described below under "*Integration of Virgin Money into the Group may be more time consuming and costly than expected and unforeseen difficulties may arise*", prospective investors should have regard to the risks relating to the proposed Part VII Transfer, and should also carefully review the section of these Listing Particulars entitled "*Information on the Group*" and the information incorporated by reference in these Listing Particulars.

It is intended as of the date of these Listing Particulars that all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc will be transferred to Clydesdale Bank PLC pursuant the Part VII Transfer. Whilst the timing of any such Part VII Transfer is still being considered, if and when such Part VII Transfer occurs it is anticipated that the then Virgin Money business and the then Clydesdale business will be combined to form the surviving entity in

which all or substantially all of the business, operations, assets, liabilities and obligations of Virgin Money plc are vested immediately following completion of the Part VII Transfer.

Should the Part VII Transfer complete or conversely, if the proposed Part VII Transfer is not implemented in its current proposed form, or at all, no assurance can be given as to the impact on the future business, operations, credit rating and/or financial performance more generally of the combined businesses, operations, assets and liabilities of the Group and its ability to deliver cost/revenue synergies. In addition, no assurance can be given at this stage as to the impact on the then ratings of the Notes.

It should be noted, however, that the Issuer continues to develop its plans for the Part VII Transfer and there can be no assurance that the proposed Part VII Transfer will be implemented in its current proposed form, or at all. Accordingly, investors should be prepared to accept the risks inherent in an investment in the Notes, whether the proposed Part VII Transfer is implemented or not.

1.12 **Integration of Virgin Money into the Group may be more time consuming and costly than expected and unforeseen difficulties may arise**

The integration of Virgin Money into the Group may be more complex than anticipated. Successful integration will require a significant amount of management time and may affect or impair the ability of the management team of the Group to run the business effectively during the period of integration and to execute the Group's existing strategic priorities. If the integration process proves more difficult than is being anticipated there is a risk to the operational performance of the Issuer and the Group. The integration exposes the Issuer to the following risks:

Retention of key staff

The success of the Group will in part depend on its ability to retain, but also attract, hire and train qualified management as well as qualified technical and sales personnel. In the course of the integration process, key staff may leave the Group in favour of competing entities. The inability to retain key staff could impair the ability of the Group properly to execute the integration of the legacy Virgin Money Group with the legacy CYBG Group. For further information, see the risk factor entitled "*Risks relating to the Group – The Group may fail to attract or retain executives, senior managers or other key employees*".

Integration of employee groups

The merger of the employee groups of Virgin Money into the Group will include, amongst other things, integration of unionised and non-unionised employees, restructuring of staff structures and possibly harmonisation of employment terms. Such merger and integration may result in labour related actions and employees terminating their employment with Virgin Money or the CYBG Group which may in turn disrupt the integration process.

Disruption or failure of systems

The integration of Virgin Money into the Group may cause disruptions or failures in the IT systems of the Group. Such disruptions or failures could damage the reputation of the Group, result in loss of customers and revenues and may adversely affect the integration process. In addition, integration of the networks and IT systems of the CYBG Group could be subject to risks caused by cyber-enabled crime and fraud, misappropriation, misuse, leakage and accidental release or loss of information maintained in the IT systems, which may be in breach of personal data legislation, and which may result in loss of customers, customer dissatisfaction or financial claims.

Disruption to management

The integration of the businesses could divert management's time and focus from operating the business of the Group. Any negative impact on management's ability to focus on running the respective businesses could have a material adverse effect on the Group, and the Group's business, results of operations, financial condition or prospects.

Integration of brands and legal entities

The integration of businesses including assets, businesses and their operations, technologies and employees may expose the Group to operating difficulties and expenditure associated with integrating the "Virgin Money" brand. As a result, there is a risk of customer confusion, in particular during the transition period and merging of the brands may expose the Group to increased regulatory scrutiny. For further information, see the risk factor entitled "*Risks relating to the Group – The reputation of the Group and its brands may be damaged by the actions, behaviour or performance of numerous persons*".

Impact on customer growth

The integration of Virgin Money into the CYBG Group may result in it having a higher risk portfolio due to either (i) changes in its customer base, or (ii) by targeting a more diverse set of segments. Any such negative impact on the Group's risk portfolio could lead to a material adverse effect on the Group's rate of medium term customer growth. As a result of the above and/or other risks, it is possible that the costs of integration of Virgin Money into the Group may be materially higher than anticipated, which would adversely affect the expected synergy benefits and in particular exceed anticipated cost savings as a result of the Acquisition. In addition, the integration may take longer than is expected, or difficulties relating to the integration, including of which the board of directors of the Issuer from time to time are not yet aware, may arise. In such circumstances, the profitability of the Group might be detrimentally affected, which could have a material adverse effect on the business and financial condition of the Group.

1.13 The 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 Group expects these pressures to continue 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 the Group's results of operations, digital capability, margins and returns through price pressure, reductions in fees and charges, increased marketing and other related expenses, investment demands, regulatory requirements and changes to capital requirements.

The UK banking industry continues to be dominated by the biggest five banks with a lack of a material shift in market share to challenger and specialist lenders, particularly in relation to the PCA and BCA markets. There is, however, some variation between each of the five largest banks with some increasing and others decreasing their market shares as they manage balance sheet growth in the context of their wider strategic agendas.

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

The Group faces competition from established financial services providers as well as new market entrants, including "challenger banks" and "neo banks" with specific areas of market focus, and non-bank competitors which, in some cases, have lower cost operating models and are therefore capable of generating better returns from asset growth. Competition in the UK mortgage market including from challenger banks seeking scale and growth over a short period of time is continuing to create downward price pressure on mortgage and other lending rates. The pressure is expected to increase as ring-fencing legislation comes into force in the UK, with some ring-fenced competitor banks looking to deploy excess liquidity in the broker mortgage market.

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 seven-day Current Account Switch Service in the second half of 2013. However, switching volumes remain subdued. The Payment Services Directive 2 (EU) 2015/2366 ("**PSD2**") has been implemented from January 2018, with a view to further opening up the competitive landscape in addition to providing enhanced protection for consumers. This creates an increased risk for traditional financial services firms and a specific material risk for the Group of disintermediation by third parties. In the UK, open banking regulation requires certain of the largest banks to provide access to certain information via a

standardised set of application programming interfaces ("APIs"). It also introduces a risk for the Group should it fail to adapt in a fast-changing environment. The Group is well placed to meet the new requirements and is actively adapting its strategy in light of the increased competition and disintermediation risk. Customer acquisition and retention strategies are expected to focus increasingly on developing compelling and broad reaching propositions centred on specific customer needs or journeys, creating ecosystems of interlinked products, services, features and functionality that increase ease and convenience for customers.

As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by the Group to introduce new products and services to keep pace with industry developments and meet customer expectations. It is also subject to the risk of not appropriately responding to increased threats of cyber-crime associated with digital expansion (for further information, see the risk factor entitled "*The Group is exposed to risks associated with cyber-enabled crime and fraud*") and the industry-wide risk of traditional banking information technology infrastructure and digital technologies becoming obsolete. The Group expects to increasingly collaborate with innovative market players in order to develop compelling and secure customer propositions and to enhance operational performance; however, the Group's financial and operational performance may be materially adversely affected by an inability to keep pace with industry trend and customer expectations.

The credit card issuing business is highly competitive. The Group competes with other credit card issuers on the basis of a number of factors, including products and services, brand, network, reputation and pricing. This competition affects the ability of the Group to obtain applicants for credit cards, encourage card members to use their credit cards, maximise the revenue generated by card usage and generate card member loyalty and satisfaction so as to minimise the number of card members switching to other credit card brands. If the Group is unable to compete successfully, the Group's business, financial condition, results of operations and/or prospects could be materially adversely affected.

1.14 **The Group may fail to successfully acquire RBS SME customers through the Incentivised Switching Scheme, which could have an adverse impact on the Group's ability to further enhance the Bank's competitiveness in the business banking market**

Competitive pressures in the business banking market remain high, with the large incumbent banks with full service capabilities and scale advantages continuing to account for significant portions of the market share amongst SME customers. The alternative package proposed by the UK authorities to replace the commitment for The Royal Bank of Scotland ("**RBS**") to divest Williams & Glyn ("**W&G**"), required as part of RBS's restructuring plan (the "**RBS Alternative Remedies Scheme**"), has received significant focus across the sector since its announcement in September 2017. Eligible "challenger banks" were able to apply to participate in an incentivised switching scheme (the "**Incentivised Switching Scheme**"), which went live on 25 February 2019, through which certain RBS SME customers (former W&G customers) are being financially incentivised to switch their BCAs from RBS to participating "challenger" banks. The RBS Alternative Remedies Scheme has been designed to facilitate the divestment of three per cent. of the BCA market share in the UK SME banking market from RBS to "challenger" segment. In addition, eligible "challenger banks", other small financial services firms and firms involved in providing financial services by making use of software and modern technology ("**FinTech firms**") offering SME banking and financial services (or with ambitions to offer such services), are able to apply to a Capability and Innovation Fund which will provide a range of awards (split across different categories with pre-determined eligibility criteria) that could be used to invest in delivering sustainable long-term improvements to firms' propositions and services for SME clients.

While the Group has been selected to participate in the Incentivised Switching Scheme, on 21 February 2019, it announced that it has not received a grant from Pool A of the Capability and Innovation Fund. The Group remains focused on competing at scale in the Incentivised Switching Scheme, however there is no guarantee that the Group will successfully acquire large numbers of RBS SME customers through the Incentivised Switching Scheme. Whilst the Group has a well-established SME banking proposition, with ahead of market rate new SME customer acquisition and SME asset growth, and a clear plan for further growth within its existing strategy, any failure by the Group to successfully acquire RBS SME customers through the Incentivised Switching Scheme, and/or be awarded an amount from the Capability and Innovation Fund could weaken the

Group's ability to compete at the same level as, and further enhance its existing competitive capabilities against, the existing incumbent UK banks and other firms in the banking and financial services sector.

Furthermore, the Group has incurred costs in preparing for its participation in both the Incentivised Switching Scheme and the Capability and Innovation Fund. The Group may continue to incur such costs. There is no guarantee that the Group will receive any benefit despite incurring these costs. Such costs could therefore have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

1.15 The Group may face risks relating to non-retail credit exposures

On 30 September 2018, the Group recorded £136m in relation to impairment provisions held on non-retail credit exposures. The majority of the Group's non-retail lending portfolio relates to SMEs. Collective provisioning for the Group's SME portfolio is based on the probability that the customer defaults on the loan (the "**PD**") and the amount the Group expects to be irrecoverable from that customer (the "**LGD**"). The modelled collective assessment also considers factors such as credit quality; levels of arrears; credit utilisation; loan to collateral ratios; and other factors including the Group's internal customer rating system. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Estimating the Group's collective and specific provisioning requires the Group's directors to exercise significant judgement, and incorporates the use of assumptions, the most significant of which are the PD and LGD assumptions used in the Group's collective modelling process, which are informed by a range of forward looking economic scenarios and the identification and judgments made in respect of loan files subject to specific assessment. The use of judgements and supportable estimates is considered by management to be an essential part of the credit impairment process. This credit impairment process, which is critical to the 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. The 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 its business, results of operations, financial condition and prospects.

1.16 The Group is subject to risks relating to the availability of liquidity and funding at a commercially acceptable cost

Funding risk is the risk that the Group is unable to raise short and/or long-term funding at a commercially acceptable cost in the retail and wholesale markets to support its ongoing operations, strategic plans and objectives. Liquidity risk is inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability. As well as relying on retail and business deposits, the Group accesses domestic and global capital markets to help fund its businesses. Credit markets worldwide have in recent years experienced, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors. Any dislocation in these funding markets or a reduction in investor appetite for holding its securities or other credit exposures to them may adversely affect the Group's ability to access funds or require it 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.

The Group has a diversified funding base, with the majority of the Group's funding generated through customer liabilities in the form of current accounts and savings accounts, funding obtained through RMBS securitisation programmes, covered bond programmes and a global medium term note 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. BoE data as at 30 September 2018 showed the Group had also drawn £8.7 billion of funding from the BoE's TFS, which will mature in 2021–2022.

As part of its funding plan, the Group intends to continue to access the wholesale funding markets. If during periods of acute economic or market disruption the wholesale funding markets were to be partially or fully closed, it is likely that wholesale funding would prove more difficult to obtain on commercially acceptable terms. Under such circumstances, the Group may incur additional costs and may be unable to successfully deliver its medium-term 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 the Group's business, financial position and results of operations, depending on its funding position at that time.

Any downgrade in the credit rating of the Issuer, the Group, any member of the Group, the Group's RMBS issuance vehicles or its respective securities, or a downgrade in the sovereign rating of the UK, may increase the Group's borrowing costs or limit its access to the capital markets, which may increase the re-financing risk, and, consequently, have a material adverse effect on its business, results of operations, financial condition and prospects. For further information, see the risk factor entitled "*A downgrade in the credit rating of the Issuer, Clydesdale Bank, Virgin Money and/or any other member of the Group, the UK banking sector or the UK Government may have an adverse effect on the Group's business, results of operations, financial condition and prospects*" below.

The Group aims to maintain a prudent customer LDR, which means that the majority of its lending is funded by retail and business deposits. Medium-term growth in the Group's lending activities will depend, in part, on the availability of retail and business deposit funding on commercially acceptable terms, for which there may be increased competition and which is dependent on a variety of factors outside the 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 the Group. 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 TFS in February 2018. Increases in the cost of deposit funding would impact the 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 its future growth.

Any loss in consumer confidence in the Group could significantly increase the amount of deposit withdrawals that may occur in a short space of time. Should it experience an unusually high and/or unforeseen level of deposit withdrawals, the 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 its business, financial condition, results of operations and prospects.

Any initiative to raise additional deposits through price leadership could have an adverse impact on the 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.

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

1.17 **The amount and quality of the Group's capital is subject to regulatory requirements and market influence**

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

The Group plans to satisfy incremental increases in capital required to support balance sheet growth by way of retained earnings and plans to access the wholesale markets to refinance various existing capital instruments and to issue new 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, the 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 the Group's business, which could, in turn, affect its capacity to pay future dividends or implement its business strategy, impacting future growth potential. If, in response to any such shortage, the Issuer raises additional capital through the issuance of share capital or capital instruments, existing shareholders and/or subordinated debt holders, including holders of the Notes, may experience a dilution of their holdings or reduced profitability and returns.

The Issuer 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. The Group may also experience an increased demand for capital as a result of regulatory requirements. For further information, see "*Regulatory risks—The 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 "*The Group faces risks relating to complaints and redress issues from sales of historic financial products, which may not be covered by existing provisions*" below.

The Group expects to be impacted by the implementation of international financial reporting standards IFRS 9 "Financial Instruments", which the Group adopted from 1 October 2018. IFRS 9 requires the Group to move from an incurred loss model to an expected loss model requiring the Group to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. The change to the basis of impairment loss provisioning is currently expected to result in a transitional impact of £21m (net of tax) due to the increased level of credit impairments required under IFRS 9 compared with IAS 39. As IFRS 9 does not require the restatement of comparative information, the transitional impact resulted in a net decrease in the Group's total equity at 1 October 2018. The transitional impact of IFRS 9 on the Group's reported CET1 ratio at 1 October 2018 was a reduction of 14bps on a fully loaded basis. As a result of the transitional capital rules option, which the Group has already confirmed it will exercise, the effect on the transitional CET1 ratio is negligible. In addition, it is expected that the complexity of the Group's impairment modelling under IFRS 9 will increase and credit losses will be recognised earlier than under IAS 39 which is likely to lead to an increase in total provisions.

IFRS 16 was issued in January 2016 and is effective for financial years beginning on or after 1 January 2019 and will be adopted by the Group with effect from 1 October 2019. For lessees, operating leases will be brought onto the Group's balance sheet with an asset recognised for the contractual 'right of use' and a financial liability recognised for the contractual payments. This change will mainly impact the properties that the Group currently accounts for as operating leases. There are no substantial changes to the accounting for leases by lessors, nor for finance leases. An implementation plan is in place and the Group continues to assess the impact of the standard.

The 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 "*Regulatory risks—The Group is subject to substantial and changing prudential regulation*" recently released by the Basel Committee on Banking Supervision (the "**Basel Committee**").

The 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 the Group may be required to increase its capital held. If it is unable to do so, its business, financial condition, results of operations and prospects may be materially adversely affected. Ultimately if there is a significant shortfall in the amount of capital held, it may lead to the BoE exercising its recovery and resolution powers over the Issuer. If the BoE, as resolution authority, were to exercise such powers in respect of the Issuer, then subordinated debt holders, including the holders of the Notes, may experience their holdings becoming cancelled or diluted, and may not receive any compensation for their losses, see "*Regulatory risks—The Group is subject to substantial and changing prudential regulation*" below.

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

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

These conduct issues relate to *inter alia*: (a) PPI; (b) standalone interest rate hedging products; (c) voluntary scope tailored business loans; (d) fixed rate tailored business loans; (e) packaged bank accounts; and (f) investment advice.

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

As part of the demerger from the National Australia Bank Limited ("NAB") group of companies (the "NAB Group"), NAB and the Issuer entered into a conduct indemnity deed on 2 December 2015 under which NAB agreed to provide the Group with an indemnity in respect of certain costs and liabilities (including financial penalties imposed by a regulator) resulting from certain historic conduct liabilities in the period prior to completion of the demerger (the "**Capped Indemnity Deed**" and the "**Capped Indemnity**", respectively) relating to the business of the Group. As at the completion of the demerger, the cover provided by the Capped Indemnity stood at £1.115 billion.

In line with the rest of the industry the Group continues to experience high volumes of PPI information requests and complaints, both from customers and via claims management companies. As a result of this and the time bar on new PPI complaints after 28 August 2019, the level of provision that was considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies was accordingly reassessed. As a result, in its audited accounts for the year to 30 September 2018, the Group increased its provisions for legacy PPI costs by £500 million, fully utilising the remaining undrawn amount of £148 million of the Capped Indemnity and recognising a charge of £352 million (pre-tax). The Group also recognised additional costs of £44 million for other less significant conduct related matters.

Notwithstanding the fact that the Capped Indemnity has now been fully utilised, certain funds paid by NAB under the Capped Indemnity remain deposited in a designated account, the withdrawal of which by the Issuer is subject to certain conditions. Under the Capped Indemnity Deed, NAB has the benefit of certain information, consultation and audit rights in relation to relevant conduct matters and claims and in particular, the Capped Indemnity is 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 Issuer of its obligations under the Capped Indemnity Deed to, among others, provide information to NAB to enable it to review the validity of claims made under the Capped Indemnity and withdrawals from the designated account, the Issuer will be prohibited from withdrawing the relevant amount of any such disputed payment from such designated account for so long as such breach is continuing. In such circumstances, the Issuer may be required to fund the costs of claims relating to certain historical conduct matters, which it would otherwise expect to be funded by amounts paid by NAB under the Capped Indemnity, from its own capital resources which may not be sufficient to settle or discharge some or all of any such claims.

In certain circumstances contemplated by the Capped Indemnity Deed, the Issuer may also be required to repay to NAB certain amounts received by it under the Capped Indemnity. The likelihood of this situation arising is expected to reduce with the passage of time as withdrawals are made from the designated account. As at the date of these Listing Particulars, NAB has not required the Issuer to repay amounts received under the Capped Indemnity previously and should such a circumstance arise then these funds may be applied to other qualifying conduct costs which have not been subject to the Capped Indemnity before being repaid to NAB. However, if the Issuer is required to repay to NAB amounts received by it under the Capped Indemnity, it would likely need to fund such repayments from its own capital resources (to the extent the Issuer is unable to make such repayments from the designated account).

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

It is also possible that recent guidance relating to handling certain regular premium PPI complaints could (amongst other things) increase the number of PPI complaints that would be brought within the scope of the FCA complaints handling rules. However, the impact of this development remains to be seen.

1.19 The Group is subject to risks associated with its dependence on mortgage intermediaries and third-party service providers for certain functions

The Group depends on a number of third-party providers for a variety of functions including, *inter alia*, for mortgage intermediation, information technology ("IT") software and platforms, "automated teller machine" ("ATM") services, payment system services, mobile application services, debit and credit card production and operational services and cheque processing services. Consequently, the Group relies on the continued availability and reliability of these service providers. If its contractual arrangements with any of these providers are terminated for any reason or any third-party service provider becomes otherwise unavailable or unreliable in providing the service to the required standard, it will be required to identify and implement alternative arrangements and it may not find an alternative third-party provider or supplier for the services, on a timely basis, on equivalent terms or without incurring a significant amount of additional costs or at all. Virgin Money's credit card business is currently reliant on a number of Virgin Money's key relationships, including with Total System Services, Inc. (which provides customer servicing capabilities). In addition, Virgin Money's investments and pensions business is reliant on a number of key relationships, including DST Financial Services (which provides fund administration) and State Street (which provides fund management and custodial services). Following the acquisition of Virgin Money, the Group could be impaired in the event of a failure of these third party systems or technology platforms, which could cause temporary service outage. These factors could cause a material disruption in the Group's operations and ability to service customers and could have a material adverse financial or reputational impact on it. It may result in a higher risk premium being applied to the Group and adversely impact the cost of funding its operations, or its financial condition and could give rise to claims by customers for financial loss experienced and/or regulatory sanctions.

In maintaining and growing its mortgage portfolio, the 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. If a major intermediary partner goes out of business or switches allegiance to other lenders, this may adversely affect the Group's lending volume. The 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. Intermediaries may not support or may be deterred by the rebranding of the Issuer's business and/or the ongoing use of the "Virgin Money" brand, which may adversely impact the Group. In addition, the intermediaries' incentives may not always align with the Group's, which could lead to a deterioration in the quality and performance of the Group's mortgage book. As the Group seeks to actively grow the volume of mortgages introduced by intermediaries, its exposure to those risks increases.

In addition, the structure of the intermediary market is also subject to change, for example, there may be a change in customer sentiment or regulation which favours customers dealing directly with financial institutions which would reduce the flow of business from intermediaries which may have an adverse impact on the Group if this business cannot be substituted. Also, there may be consolidation in the intermediary market which may change the behaviour of the residual intermediaries in ways which may adversely impact the Group. Any of these factors could have a negative impact on the Group's ability to meet its strategic objectives for its asset base and, consequently, its business, financial condition, results of operations and/or prospects.

In addition, if mortgage intermediaries are found to have violated applicable conduct regulations or standards in the sale of the Group's mortgage products, the Group's brands and/or reputation could be harmed as a result. Reputational damage to the Group's brands caused by the failure of a

third-party supplier may also adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

1.20 **The Group is subject to risks associated with customer and counterparty non-performance**

Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with the terms agreed. The Group has exposures to many different products, counterparties and obligors whose credit quality can have a significant adverse impact on the Group's business, results of operations, financial condition and prospects. Retail and SMEs lending activities account for most of the Group's credit risk. As at 31 December 2018, mortgage lending comprised 83 per cent. of the Group's customer loan portfolio, SME loans comprised 11 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.

Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, could cause counterparties and customers (especially those concentrated in areas experiencing less favourable business or economic conditions) to experience an adverse financial situation. This exposes the 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 in the UK could have an adverse impact on the Group's financial performance and position. Other factors that could have an adverse impact include further financial market dislocation which could lead to falling confidence, increasing refinancing risk and contagion risk amongst market participants, counterparties and customers.

In the ordinary course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the 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. The 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 its business, results of operations, financial condition and prospects.

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

1.21 **The Group is exposed to the risk of customers who have interest-only owner-occupied mortgage loans are unable to repay their loans in full at maturity**

The 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. In respect of owner occupied interest-only mortgage customers, assessments of capital repayment strategies may be incomplete or out-of-date and consequently, the Group may lack information to accurately evaluate the related repayment risk. As a result, it may have reduced visibility of future repayment issues in respect of its interest-only residential mortgages, which could limit the 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

capital repayment strategies. Where such repayment strategies are inadequate or have not been executed as planned, the 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. The 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 the 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.

1.22 Concentration of credit risk could increase the Group's potential for significant losses

Substantially all of the 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. 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 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 the Group has significant business or assets, concentrations of credit risk could cause it to experience greater losses than some competitors.

In addition, the Group faces concentration risks relating to its agricultural lending. The 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, after the UK's withdrawal from the EU, those provided via the EU Common Agricultural Policy), dairy price pressure reducing the profitability of dairy producers or an outbreak of livestock disease such as foot and mouth disease. While the Group regularly monitors its credit portfolios to assess potential concentration risk, efforts to divest, diversify or manage the Group's credit portfolio against concentration risks may not be successful. Concentration of credit risk could result in a material adverse effect on the Group's business, results of operations, financial condition and prospects.

1.23 The Group is exposed to risks associated with its IT systems

The 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 the Group's ATMs or a failure of online or mobile banking platforms could have a significant negative effect on its reputation and could also lead to potentially large costs both to rectify the issue and to reimburse losses incurred by customers. In addition, any defect in the Group's standard documentation or defect in its electronic banking applications or mainframe could 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.

A range of standard form documentation and automatic banking systems are widely used in the Group's business to process high volumes of transactions. There can be no assurance that the Group's IT systems would support a significant increase in online or mobile traffic or volumes of its operations which are dependent on IT in the short term. In the future, the Group may need to upgrade its IT systems and staffing to meet such demand, which may cause delays to customers and adversely affect its customer service.

As the 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 the Group's operations.

Further, the Group regularly conducts 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 the Group's business, financial condition, results of operations and prospects. The Group will also face risks related to the integration of the Group's and the Virgin Money Group's IT systems.

Any disruption to the Group's IT systems, including, but not limited to those highlighted above, could have a material adverse effect on its business, financial condition, results of operations and prospects.

1.24 The Group is exposed to risks associated with cyber-enabled crime and fraud

The Group is subject to the risk of actual or attempted IT security breaches from parties with criminal or malicious intent. Should its 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 its business, financial condition, results of operations and prospects.

The Group continues to invest in its information security controls in response to emerging threats, such as cyber-enabled crime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber-attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to the 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. The 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 the Group's operational performance and reputation. The Group's strategy to increase its digital presence may expose the Group to increased risks associated with cyber-enabled crime and fraud. For more information on its digital strategy, please refer to risk factor entitled "*Risks associated with the Group's digital strategy*".

Any breach in security of the 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 its reputation and/or brands.

1.25 The Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments

The Group faces risks related to its hedging and treasury operations. The 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. The Group's treasury operations have 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, the 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. The Group also has cross currency hedging instruments in place for cross currency funding. If its hedging strategies are not effective, the 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 the Group's capital held.

Through its treasury operations, the Group holds liquid assets portfolios potentially exposing the Group to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of the Group's liquid assets portfolios could fall and cause the Group to record mark to market losses. In a distressed economic or market environment, the fair value of certain of the 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 the Group's exposures, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Interest-rate insensitive deposit balances form a significant part of the Group's funding. The current, historically low level of GBP interest rates, coupled with the probability of these rates increasing in advance of any increase in the BoE 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, these deposit 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.

1.26 **The 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, the Group is and will be subject to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Whilst highly unlikely, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial and financial soundness of many financial institutions may be closely related as a result of its 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 the 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 the Group interacts on a daily basis. Whilst this risk is highly unlikely to materialise, systemic risk could have a very material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

The Group routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and other institutional counterparties, resulting in large daily settlement amounts that may give rise to significant credit exposure. In particular, the 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, the Group faces concentration risk with respect to specific counterparties including payment system participants and operators. In addition, the Group has counterparty and operational risk with LCH.Clearnet Limited that acts as a clearing provider, on an arm's-length basis, for central clearing of derivative transactions. A default by, or concerns about, the creditworthiness of these companies or one or more other financial services institutions could therefore adversely impact the Group.

1.27 **A downgrade in the credit rating of the Issuer, Clydesdale Bank, Virgin Money and/or any other member of the Group, the UK banking sector or the UK Government may have an adverse effect on the Group's business, results of operations, financial condition and prospects**

Credit ratings are an important reference for market participants in evaluating the 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 the Group and/or the UK banking sector, or for the UK Government. Review activity is based on a number of factors including the Group's financial strength and outlook, the assumed level of UK Government support for the Group in a crisis and the strength of the UK Government, and the condition of the financial services industry and of the markets generally.

Any future downgrade in the credit rating of the Issuer, any member of the Group, or its securities, or the UK banking sector generally, or a downgrade in the sovereign rating of the UK could:

- (a) adversely affect the Group's liquidity and competitive position;
- (b) undermine confidence in the Group;
- (c) increase the Group's borrowing costs;
- (d) require amendments to the Group's secured funding programmes; or

- (e) limit the Group's access to wholesale funding from capital markets at commercially acceptable costs or limit the range of counterparties willing to enter into transactions with the Group (including under the Group's secured funding programmes), as many institutions require their counterparties to satisfy minimum ratings requirements,

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

1.28 **The 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 the Group and its prospects**

The management of risks requires, among other things, robust policies and procedures for the accurate identification and control of a large number of transactions and events. Such policies and procedures may not always prove to be adequate in practice against the wide range of risks that the Group faces in its business activities. There is a risk that the Issuer's existing policies may not adequately cover the nature of the Group's operations due to the introduction of processes or practices that are not currently part of the Group's operating model, thereby leading to losses or a deterioration in performance, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group has a range of systems designed to measure and manage the various risks which it faces. 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 the Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though the 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 the Group's business, financial condition, results of operations and prospects.

1.29 **The Group must comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations, and a failure to prevent or detect any illegal or improper activities fully or on a timely basis could negatively impact customers and expose the Group to liability**

The Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit it, 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, the 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 Group believes 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 the Group's employees, mortgage intermediaries or third party service providers, for which it 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 the Group's business, financial condition and results of operations.

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

The Group's business is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events. Operational risks are inherent in the day-to-day operational activities of the Group, which may result in direct or indirect losses and could adversely impact the 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 (including the health and safety of employees), fraud, deficiencies in employees' skills and performance or human error, or other idiosyncratic components of operational risk that are related to the 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. The Group is exposed to extreme but plausible events that are unpredictable and may result in a material or systemic loss, business interruption or significant reputational damage. Operational risks may be increased as a direct consequence of the process of integrating Virgin Money into the Group, in particular due to problems with migrating data, systems (such as IT systems) or processes.

The Group is dependent on its information systems and technology from a system stability, data quality and information security perspective. The Group is dependent on payments systems and technology that interface with wider industry infrastructure; for example, the Group is, in common with other banks, will be dependent on various industry payment systems and schemes (including CHAPS, BACS, Faster Payments and SWIFT) for making payments between different financial institutions on behalf of customers. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable timeframes, or be adequately protected) could adversely impact the Group's ability to conduct its daily operations and its business, financial condition, results of operations and prospects.

In addition, financial models are used extensively in the conduct of the 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 the Group's business, financial condition, results of operations and prospects.

The Group may look to implement new operational processes and systems to assist in responding to market developments, such as the move towards the use of open application programming interfaces that enable the secure sharing of user and financial services information with other financial services and third parties ("**Open Banking**") which is designed to enable personal customers and small businesses to share their data securely with other banks and with third parties, allowing them to compare products on the basis of their own requirements and to manage their accounts without having to use their bank, or to reflect changes in regulations, such as the General Data Protection Regulation (Regulation (EU) 2016/679) whereby the Group must be able to report at any time to the ICO all locations where personal identifiable information is stored (for example within systems and databases) and provide a justification of why such personal identifiable information is needed. Due to the scale and complexity of such projects, the 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 the 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 the 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 the Group's operational systems and premises. Additionally, the Group is exposed to risks associated with an increase in the cost or lack of available insurance provision for the Group (including any run-off policies), which could have an adverse impact on profitability. 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 the Group's business, financial condition, results of operations and prospects. Any actual or perceived inadequacies, weaknesses or failures in the Group's systems or processes could have a material adverse effect on its business, financial condition, results of operations and prospects. For further information, see the risk factor entitled "*The amount and quality of the Group's capital is subject to regulatory requirements and market influence*".

1.31 The Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate

The preparation of the Group's financial statements require management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS as adopted by the EU. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include financial assets and liabilities at fair value through profit or loss, impairment provisions on credit exposures, deferred tax, PPI redress provision and other conduct related matters, retirement benefit obligations and effective interest rate assumptions. For information on the Group's critical accounting estimates and judgements, see note 1.8 to the financial statements in the Issuer's 2018 Audited Financial Statements, which are incorporated by reference into these Listing Particulars.

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

The adoption of new accounting standard IFRS 9 'Financial Instruments' is expected to impact all UK financial institutions, including the Group, and is expected to have a material effect on financial statements. The new standard applies to all accounting periods beginning on or after 1 January 2018 and was implemented by the Group with effect from 1 October 2018.

1.32 The Group may fail to attract or retain executives, senior managers or other key employees

The 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. The 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 the Group's brand and values, which represents a major component of its overall strategy, or they do not wish to be located or relocate to the Group's key locations. The Group competes for talented people with skills that are in relatively short supply and it may not have sufficient scale to offer employees rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. The 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 the Group's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect the 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 the Group's business, financial condition, results of operations and prospects.

There will be a period of uncertainty for individuals, and therefore an increased retention risk, during the pre-completion integration planning phase, during which both the Group and the Virgin Money Group continue to be bound by the strict requirements limiting its or their confirmation, communication or publication of the proposed post-completion organisational structure, plans and potential impact on roles. Following the acquisition of Virgin Money, there may be other factors during the integration phase, until 'end state' model and synergies are achieved, that may also

impact retention. Internal restructuring, transfer of employees under the Transfer of Undertakings (Protection of Employment) Regulation 2006, as amended ("**TUPE**") or measures arising from a transfer, collective consultation involving assessment and selection, cultural factors and leadership behaviour or other 'interim' arrangements, may all potentially impact the Group's ability to retain key talent.

1.33 The 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

The 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 the Group is avoiding or evading tax, or if it is associated with customers that do so, could adversely affect its reputation. The Group operates wholly within the UK. Future actions by the UK Government to adjust tax rates or to impose additional taxes (including particular taxes and levies targeted at the banking industry) could reduce the Group's profitability. Revisions to tax legislation or to its interpretation might also affect the 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 the Group within statutory deadlines, but Her Majesty's Revenue & Customs ("**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 the Group's business, financial condition, results of operation and prospects.

Further details on recent changes to tax laws and tax rates and their impact on the Group is given in notes 2.5 and 3.11 to the financial statements in the 2018 Audited Financial Statements, which are incorporated by reference into these Listing Particulars.

1.34 The Group may be required to increase its contributions to the Yorkshire and Clydesdale Bank defined benefit pension scheme (the "DB Scheme") to fund deficits

The Group is the sponsoring employer of the DB Scheme. This is a defined benefit pension scheme and assets of the DB Scheme are held in a trustee administered fund, operated separately from the Group. Under the DB Scheme, benefits provided are based on employees' years of service and their salaries using either a career average formula or final salary formula. Risk arises from the DB Scheme because from time to time there may be insufficient assets to cover the defined benefit liabilities already built up in the scheme (i.e. there is a deficit in the scheme) and the Group is obliged by legislation and the governing documents of the scheme to fund the liabilities.

Following agreement from the trustees, the DB Scheme closed to new entrants in 2004 and is now closed to the future build-up of benefits for the majority of employees. As of 1 August 2017, the principal pension savings vehicle available to new employees is "Total Pension!", a defined contribution pension scheme under which members now benefit from increased employer contributions. However, a small minority of members of the Yorkshire section of the DB Scheme, who did not provide their individual consent to the changes as at 31 July 2017, remain active members of the DB Scheme and are required to make a minimum contribution of 15 per cent. of pensionable salary.

Despite these restrictions to new entrants and future accrual, the ongoing financial commitment of the Group to the DB Scheme may increase over time, either because the cost of providing benefits in the future for the remaining active members will increase or because the actuarial funding deficit increases. The actuarial funding deficit of the DB Scheme and the financial commitments of the Group to the DB Scheme are assessed at regular actuarial valuations. Agreement was reached with the DB Trustee on the valuation of the actuarial funding deficit at 30 September 2016, with a calculated deficit of £290 million. In the recovery plan dated 31 July 2017 the Group agreed to contribute £50 million per annum until 31 March 2022 and £55 million in the year to 31 March 2023 to eliminate this deficit. For future valuations 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 the Group and the trustees of the DB Scheme although the regulator established under Part 1 of the Pensions Act 2004 (as amended) in the UK has the power to set these in certain circumstances.

The actuarial funding deficit in the DB Scheme can increase because of many factors outside the control of the Group (for example, changes in market conditions or member longevity). If the actuarial funding deficit increases, the Group 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 the Group's business, financial condition, results of operations and prospects.

1.35 **The Group faces risk from the impact of climate change**

Increasing focus on the effects of climate change may lead to increased costs arising from activities to support stress testing and loss modelling for physical risks coupled with potential additional capital requirements. There is a risk that the transition to a low carbon economy is either not effected quickly enough thereby exacerbating climate risks, or too quickly with the impact of inadvertently choking off parts of the economy and increasing levels of default and loss within certain economic sectors. This could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2. **REGULATORY RISKS**

The 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 EU. These laws, rules, and regulations include: (A) prudential regulatory developments; (B) increased regulatory oversight in respect of conduct issues; and (C) industry-wide codes, guidance and initiatives. Each of these has costs associated with it, may significantly affect the way that the Group does business and may restrict the scope of their 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 the Group's access to liquidity, increase its funding costs, increase its compliance costs, delay, limit or restrict its strategic development and have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2.1 **The Group is subject to substantial and changing prudential regulation**

The Group faces risks associated with an uncertain and 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. The Group's borrowing costs and capital requirements could be affected by these prudential regulatory developments, which include: (A) the legislative package implementing the proposals of the Basel Committee (known as Basel III, as updated up to the final reform package issued in December 2017) in the EU and amending and supplementing the existing Capital Requirements Directive (2013/36/EU) ("**CRD IV**") and other regulatory developments impacting capital, leverage and liquidity positions; and (B) European Union directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms of 15 May 2014, as amended ("**BRRD**"). The EU's implementation of CRD IV and BRRD is supported by level 2 measures (delegated acts and implementing acts, including Regulatory Technical Standards ("**RTS**") and Implementing Technical Standards ("**ITS**")) which the European Commission is empowered to adopt. This includes new delegated acts and RTS proposed as part of proposals to amend CRD IV in November 2016. These measures provide detail to firms on how to comply with obligations under CRD IV and BRRD and are supplemented by level 3 measures (guidelines) issued by the European Banking Authority (the "**EBA**"). Some of these measures are still to be finalised or amended and may have an impact on the Group, which could include increasing the costs of compliance.

On 7 December 2017, the Basel Committee published the final instalments of its Basel III reforms (sometimes referred to as Basel IV). These are intended to enhance risk sensitivity and robustness of standardised approaches, clarify the role of internal models in the capital framework and to implement changes to the design and calibration of the leverage ratio and capital floors. As such, the final Basel III reforms package includes changes to the standardised approach to credit risk and new capital floor requirements. The majority of these reforms are required to be implemented by January 2022, the output floor has a 5 year transitional period to 2027.

Any future prudential regulatory developments could have a material adverse effect on the Group's business, results of operations and financial condition.

(a) **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 (being the capital measure (the numerator) divided by the exposure measure (the denominator) calculated in accordance with relevant EU legislation) (the "**Leverage Ratio**").

CRD IV requires, on a consolidated basis, CYBG to hold a minimum amount of total regulatory capital of 8 per cent. of risk weighted assets, a minimum amount of Tier 1 Capital of 6 per cent. of risk weighted assets ("**RWAs**") and a minimum amount of common equity Tier 1 capital of 4.5 per cent. of risk weighted assets (the "**Pillar 1 requirements**"). In addition, CRD IV introduced several capital buffers, which are required to be met with common equity Tier 1 capital. The combination of (i) the capital conservation buffer, (ii) the time-varying countercyclical capital buffer, (iii) the higher of (A) the global systemically important institutions buffer or other systemically important institutions buffer and (B) the systemic risk buffer constitutes the "combined buffer".

The capital conservation buffer and the countercyclical capital buffer currently apply to the Group. The countercyclical capital buffer rose from 0 per cent. to be 0.5 per cent. of a bank's total RWA's in June 2018, and rose to 1 per cent. from November 2018. The primary objective of the countercyclical capital buffer is to use a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. Consequently, the BoE would be expected to change countercyclical capital buffer requirements if it determines that the strength of the UK economy warrants such change. The capital conservation buffer is set at 2.5 per cent. of RWAs and needs to be met with an additional amount of CET1 capital. As set out above, the final Basel III reforms will change the calculation of RWAs.

The combined buffer sits on top of the Pillar 1 requirements. If a bank breaches the combined buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make as well as limiting payments on additional tier 1 instruments such as the Notes.

In addition, the PRA requires CYBG to hold extra capital to cover risks not covered or insufficiently covered by the Pillar 1 requirements (the "**Pillar 2A requirements**"). The Pillar 2A requirements sits on top of the Pillar 1 requirements so pushes up the combined buffer requirements and automatic safeguards. The PRA's framework also enables a PRA capital buffer which is not prescribed under CRD IV. The PRA capital buffer (also known as Pillar 2B requirements) is set by the PRA on a bank-by-bank basis using supervisory judgement informed by the impact of stress scenarios on a bank's capital requirements and resources, and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in the bank's risk management and governance. Any increase in the Pillar 1, Pillar 2 requirements, the combined buffer or the PRA capital buffer would increase the capital requirements of the Group which could have a material adverse effect on the Group's business, results of operations and financial condition.

CRD IV requirements adopted in the UK may change, whether as a result of further changes to CRD IV agreed by EU legislators (such as those originally proposed in November 2016 – see "*The Group is subject to substantial and changing prudential regulation – Minimum requirement for own funds and eligible liabilities*" for further information), binding regulatory technical standards to be developed by the EBA or changes to the way in which the PRA interprets and applies these requirements to UK banks and bank holding companies, following the UK's exit from the EU or otherwise.

Such changes, either individually and/or in aggregate, may lead to further unexpected requirements in relation to the 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 the Group could result in regulatory actions, including requiring the Issuer to issue additional CET1 securities, requiring the Issuer to retain earnings or suspend dividends or issuing a public censure or the imposition of sanctions or limiting payments on additional tier 1 instruments, such as the Notes. This may affect the 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, the Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders and/or subordinated debt holders, including holders of the Notes may experience a dilution of their holdings or reduced profitability and returns.

(b) ***Recovery and resolution***

The BRRD contains requirements relating to recovery and resolution plans, early supervisory interventions and the resolution of firms (including the introduction of a bail-in tool).

The BRRD (including the bail-in tool), and the associated FCA and PRA rules, have been implemented in the UK. The BoE and PRA are consulting on a Resolvability Assessment Framework, with full implementation expected by 2021. 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. On 14 October 2016, rules specifying the minimum set of information on financial contracts that should be contained in detailed records came into force in the EU. On 5 April 2017, the EBA issued three sets of final guidelines on bail-in provisions under the BRRD, which provide guidance on the use of conversion rates, treatment of shareholders and the treatment of financial instruments recognised under the BRRD.

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 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 (the PRA issued requirements relating to operational continuity in resolution in July 2016 and further clarified the reporting requirements on this topic in April 2017). These changes were implemented on 1 January 2019. 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. In the UK, the Banks and Building Societies (Priorities on Insolvency) Order 2018 was published on 19 December 2018 and sets out the new insolvency hierarchy. The BRRD also provides write-down or conversion powers to resolution authorities for such authorities to ensure that relevant capital instruments (including the Notes) absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant institution or its parent company or group, 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 the BoE, as resolution authority, were to exercise such powers in respect of the Issuer, then existing shareholders and/or subordinated debt holders, including holders of the Notes, may experience dilution of, or losses on, their holdings and may not receive any compensation for their losses. In addition, in a resolution situation, financial public support will only be available to the Issuer 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. Given that the purpose of resolution tools is to minimise any reliance on financial public support, there can be no assurance that any such financial public support will be forthcoming.

The BoE has made a commitment to parliament that major UK banks will be fully resolvable by 2022. To satisfy this commitment, the PRA and BoE has published consultation papers setting out the proposed 'Resolvability Assessment Framework' for UK banks, with full implementation of the framework required by 2021. The BoE consultation paper sets out how the BoE proposes to assess resolvability, against which it will perform its assurance and publicly disclose the result. The PRA consultation paper contains proposed requirements for banks to carry out realistic assessments of their preparations for resolution, identifying any risks to implementation and their plans to address these. Banks will be required to submit their assessments of their preparation for resolution to the PRA by September 2020 (and every two years following), and to publicly disclose a summary of that assessment from the end of May 2021. This would apply to the largest UK banks with at least £50 billion in retail deposits on an individual or consolidated basis including CYBG. As part of this framework, the BoE issued its final statement of policy on valuation capabilities to support resolvability in June 2018, Compliance with the policy is required by January 2021. In October 2018, the Implementing Technical Standards ("ITS") with regard to procedures and standard forms and templates, for the provision of information for the purposes of resolution plans for credit institutions, was published in the Official Journal of the European Union. The PRA have stated all non-simplified obligation firms such as CYBG will be required to submit the templates on an annual basis in accordance with the ITS. The new rules on the Resolvability Assessment Framework may increase compliance costs and may also affect the way in which the Group is perceived by the market which in turn may affect the value of the Notes.

In addition, on 23 November 2016, the European Commission published a comprehensive package of reforms to further strengthen the resilience of EU banks, including amendments to BRRD. For further information see paragraph (e) " – *Minimum requirement for own funds and eligible liabilities*" below.

(c) ***Banking Reform Act and structural reform***

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 secondary legislation required under the Banking Reform Act and supplementary PRA and FCA rules came into force on 1 January 2019. The rules are typically referred to as "ring-fencing". Both the Issuer and the Group is in scope for ring-fencing.

Ring-fencing separates retail and SME deposits held by UK banks from wholesale and investment banking activities. The Group has completed activity to achieve compliance. The implementation of ring-fencing has not resulted in materially increased compliance costs given the Group's focus on retail and SME business. However the introduction of ring-fenced and non-ring-fenced banks may affect the nature of competition within the UK market.

(d) ***FSCS and depositor guarantee 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 resulting in a wider loss of confidence in the relevant financial sector. The Group is responsible for contributing to the FSCS through a levy. The aim of this levy is to support compensation payments made by the FSCS and to cover management expenses.

The EU directive (2014/49/EU) on deposit guarantee schemes (the "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 with effect from July 2015. The DGSD ensures that all deposits up to €100,000 are protected through their national deposit guarantee scheme. The rules make provision for, amongst other things, post-event levies

with access to funds collected from the UK bank levy, changes to the UK FSCS which introduced, from 3 July 2015, temporary high balance deposit protection up to £1 million for up to six months for certain types of deposits, and increased speed of pay-out. The 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. Under the present regime, most depositors are eligible for protection, in contrast to the previous PRA rules, where only retail deposits and deposits of small corporates were eligible for protection by the FSCS. All deposit taking firms subject to the regime are required to produce SCV files in a shortened time period for verification purposes and in the event of default. Firms are also 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 took effect from 1 December 2016. In October 2016, the PRA introduced a new method for assessing individual banks' FSCS levies..

In November 2015, the European Commission proposed the creation of a European deposit insurance scheme ("EDIS"), which would develop the current provisions under the DGSD, to create a single European deposit insurance scheme for deposits, to which banks would be required to contribute. The proposals for this are not yet finalised, and it is unclear when the legislative process on these measures is likely to start. The extent to which these proposals will impact UK banks is therefore currently unclear, given the timeline for the UK's exit from the EU.

(e) ***Minimum requirement for own funds and eligible liabilities***

The BoE has published its policy to implement the BRRD requirement for firms to meet the minimum requirement for own funds and eligible liabilities ("**MREL**"). These rules are designed to ensure firms have sufficient loss absorbing capacity and to ensure continuity of critical functions without making recourse to public funds. MREL is set annually on a case by case basis by the BoE and the requirement for firms to meet MREL is being phased in between 2016 and 2022.

On 13 June 2018, the BoE published indicative data on the MREL requirements for the UK's systemically important banks and building societies, as well as indicative data on the average MREL requirements for certain other non-systemic UK banks and building societies, including the Issuer and Virgin Money. The PRA requires these banks and building societies to meet an interim MREL requirement from 1 January 2020 and a final MREL requirement from 1 January 2022 (although the UK's systemically important banks and building societies will need to comply with the minimum requirements set out in the Financial Stability Board's total loss absorbing capacity ("**TLAC**") term sheet from 1 January 2019). The average interim MREL requirement for the named non-systemic UK banks and building societies (including capital conservation and countercyclical capital buffers) is 21.5 per cent. and the average final MREL requirement for the named non-systemic UK banks and building societies (including capital conservation and countercyclical capital buffers) is 27.9 per cent. The MREL requirements set for each bank and building society will depend on a number of factors, including (but not limited to) changes to the bank or building society and its balance sheet, the preferred resolution strategy applicable to the relevant bank or building society and any change in PRA or international policy that changes the way RWAs or the exposure measure of the leverage ratio is assessed. Final MREL requirements will require consultation with competent authorities and relevant European Union resolution authorities. Accordingly, the indicative MREL requirements published by the BoE are not binding or a definitive determination of future consolidated MREL requirements. The Group expects that from 1 January 2020 until 31 December 2021 it will be required to hold 18 per cent. of risk-weighted assets in the form of MREL and from 1 January 2022, the Group will be subject to an end-state MREL of two times Pillar 1 and Pillar 2A capital. Banks are unable to count capital used in meeting their combined buffer requirements towards meeting their MREL requirement. CYBG expects that the Group will be designated a domestic systemically important bank under the BoE's leverage ratio framework which may, subject to a three-year transition period, increase MREL requirements. It is difficult to predict the full effect MREL may have on the Group until MREL has been fully implemented. An

increase in the amount of own funds or eligible liabilities required to be issued by the Issuer and/or other members of the Group may increase compliance costs, delay, limit or restrict the execution of the Group's strategy and may have a material adverse effect on the 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 the Group (including the Notes) and its competitors and there is a risk that the relative impact may give rise to a reduction in competitiveness of the Group. The BoE issued its consultation on internal MREL in October 2017. This paper consulted on "internal MREL" (instruments that are issued to the resolution entity from other legal entities in a group) as well as amendments to its previous Statement of Policy to address operational continuity requirements. In June 2018, the BoE issued a new statement of policy in relation to MREL, and published responses to the consultation on internal MREL referred to above. The BoE issued a further policy statement on MREL reporting in June 2018, setting out its expectations for reporting on the minimum requirements for own funds and eligible liabilities.

On 23 November 2016, the European Commission presented a comprehensive package of reforms to further strengthen the resilience of EU banks. These proposals (the "**EU Banking Reforms**") amend many of the existing provisions set forth in CRD IV and the BRRD and included provisions relating to MREL. On 25 May 2018, the Council of the EU agreed its stance on the EU Banking Reforms and asked the presidency to start negotiations with the European Parliament. The European Parliament confirmed its position on the EU Banking Reforms at its June 2018 plenary. The European Parliament and Council of the EU reached agreement on the main elements of the EU Banking Reforms in late 2018, which were endorsed by the Committee of Permanent Representatives ("**COREPER**") on 30 November 2018 and approved by the Economic and Financial Affairs Council on 4 December 2018. In February 2019, COREPER endorsed the positions agreed with the European Parliament on all elements of the EU Banking Reforms. The agreed text remains subject to formal adoption by the European Parliament and Council of the EU, which is expected to occur during 2019. Although negotiations have now concluded it remains difficult to predict how EU Banking Reforms will affect the Issuer, the Group and holders of the Notes.

(f) ***Operational risk capital***

In December 2017, the Basel Committee issued its finalised revisions to the standardised approach for measuring operational risk capital which is used by the Group. The Basel Committee is introducing a statistically superior measure of operational risk, termed the "Business Indicator", which will replace gross income as a key input for determining operational risk capital. In addition, the Basel Committee has removed 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. The changes will have to be transposed into European law (which may continue to apply notwithstanding the UK's departure from the EU, currently scheduled for 29 March 2019) and UK law and so are not expected to apply to the Group until 2022 at the earliest.

These changes, including regulatory changes arising from the Basel capital adequacy reforms, may require the Group to hold additional operational risk Pillar 1 capital which could materially adversely affect the 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 the Group's business, financial condition, results of operations and prospects.

(g) ***Credit risk and risk-weighting of assets***

In December 2017, the Basel Committee published the final version of the measures it is taking to improve consistency and comparability in bank capital ratios, and thereby to restore confidence in risk-weighted capital ratios. These measures include: a revision to 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. The measures 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 "Internal Ratings Based" ("**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.

At the date of these Listing Particulars, the finalised standards are still required to be transposed into European and UK law and so it is not possible to say with definitive certainty what impact the changes will have on the Group's capital requirements, capital structure, business, financial condition and results of operations. The initial consultative publications were supported by quantitative impact studies which 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 the Group's RWAs and subsequent capital held. The publication issued in December 2017 has incorporated several factors that will alter the outcome should a further quantitative impact study be completed and the increasing certainty around the requirements enables market participants, including the Group to introduce mitigating actions to offset areas where the calculation of RWAs may see an increase. In March 2018, the European Commission published a targeted exploratory consultation on the final reforms.

The main implementation date given by the Basel Committee is 2022. The Basel Committee has also published its final 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. As was widely anticipated, the Basel Committee confirmed that the output floor would be set at 72.5 per cent. Implementation of the floor is from 2022, with a 5 year transitional period running to 2027 which will need to be implemented at local level.

The final implementation of these final standards may increase the Group's capital requirements which may have a material adverse effect on the Group's capital structure, business, financial condition and results of operations.

(h) ***Interest rate risk in the banking book and market risk***

The Basel Committee has consulted on supervisory approaches to interest rate risk in the banking book. The updated standard released in April 2016 applies an enhanced disclosure approach based on qualitative statements and the use of six standardised scenarios. The European Commission has made proposals to introduce a revised framework for capturing interest rate risks for banking book positions (within the package of amendments to CRD IV proposed in November 2016). In line with the Basel Committee's final standard the amendments include the introduction of: (A) a common standardised approach that institutions might use to capture these risks or that competent authorities may require the institution to use when the systems developed by the institution to capture these risks are not satisfactory, (B) an improved outlier test and (C) disclosure requirements. The EBA published several consultation papers aimed at strengthening the European Pillar 2 framework in October 2017, including proposed changes to existing guidelines on the management of interest rate risk in the banking book arising from non-trading activities. The guidelines applied from 31 December 2018.

The Group is also monitoring the Basel Committee's approach to traded market risk in view of the risk that, although the Group's operations are all related to "banking book" activity, the Basel Committee may require different treatments to be applied to certain products. This is also subject to how Basel Committee requirements are applied in the UK and to all firms rather than just large internationally active banks. The package of proposals on amendments to CRD IV also contained changes to the European framework for market risk, in order to align this with the outcomes of the Basel Committee's review of its approach to traded market risk. The proposals include changes in relation to:

derivatives which are classified as "held as trading"; products which are presumed to be included in the trading book; and, treatment of foreign exchange. Institutions are allowed to deviate from the presumption that certain products are trading book instruments but to do so must satisfy the competent authorities that the position is not held with trading intent or does not hedge positions with trading intent.

In March 2018, the Basel Committee published a further consultative document proposing a number of revisions to its January 2016 standard and setting out proposals for a simplified alternative to the revised standardised approach to market risk. The final standard was published in January 2019.

Any such regulation may increase compliance costs which may have a material adverse effect on the Group's business, financial condition and results of operations.

(i) ***Firms' assessment of Pillar 2 risks***

The PRA published a policy statement on its approach to setting Pillar 2 capital requirements for the banking sector in July 2015. Various updates to this policy statement have been published, with the most recent update published in April 2018. The supervisory statement contains requirements in relation to Pillar 2A methodologies, including the 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. The PRA also published rules in 2017 to address some of the concerns on differences between the standardised approach and IRB risk weights. The changes allow firms to offset variable Pillar 2A add-ons.

The principal consequence of the new rules could be an increase in compliance costs for the Group which may have a material adverse effect on the Group's capital structure, business financial conditions and results of operations.

The PRA's framework of final rules and supervisory expectations (which implement the CRD IV rules on liquidity in the UK) have been in place since June 2015. These rules have been supplemented by PRA proposals to establish a UK Pillar 2 liquidity regime, which will work in a similar way to Pillar 2 add-ons for capital. In February 2018, the PRA published a policy statement and statement of policy on Pillar 2 liquidity. The statement of policy outlines the PRA's approach to: the level of application of Pillar 2 liquidity guidance; assessing cash flow mismatch risk; assessing franchise viability risks; assessing intraday liquidity risks; and, assessing Pillar 2 liquidity risks. The policy statement also includes final reporting instructions for Pillar 2 liquidity.

The PRA's final proposals may result in increased liquidity requirements that may have an adverse impact on the Group's financial condition and results of operations.

(j) ***Leverage***

The Financial Policy Committee directed the PRA to implement a leverage ratio framework on 1 July 2015. Following a consultation period, the PRA published policy statement PS27/15 ("Implementing a UK leverage ratio framework") in December 2015. This determined that any PRA regulated bank or building society with retail deposits equal to (or more than) £50 billion (on an individual or consolidated basis) would be in scope. In scope firms are required to meet a 3 per cent. minimum leverage ratio requirement. They are also required to confirm that they hold an amount of CET1 capital that matches (or exceeds) their countercyclical leverage ratio buffer. In scope firms are also subject to disclosure and reporting requirements in relation to their leverage ratio.

In October 2017, the PRA published Policy Statement 21/17 ("UK leverage ratio: treatment of claims on central banks"). This increased the minimum leverage ratio requirement to 3.25 per cent. of total exposures. It also contained changes to the disclosure and reporting requirements (which came into effect in December 2017). Additionally, in scope firms may exclude central bank claims that are matched by deposits in the same

currency (and of the same or longer maturity) from the calculation of total exposure, in relation to leverage ratio calculations.

In November 2018, the PRA published Policy Statement 28/18 (“UK leverage ratio: applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer”), confirming that from 1 January 2019 the UK leverage ratio framework will apply on a sub-consolidated basis to ring-fenced bodies in scope. The Group will cross the PRA threshold by receiving more than £50 billion in retail deposits, and will therefore be in scope of the leverage ratio framework. This may lead to additional costs in relation to compliance and ongoing monitoring that reporting and disclosure obligations are being met.

2.2 **The Group is subject to substantial conduct regulations and regulatory oversight in respect of conduct issues**

- (a) The Group is exposed to many forms of conduct and/or regulatory risk, which may arise in a number of ways. In particular: certain aspects of the Group's current or past business may be determined by its regulators including the FCA, the PRA, the Payment Systems Regulator (“PSR”), Her Majesty's Treasury (“HMT”), the FOS, the CMA, the UK ICO 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 the 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 the Group's business;
- (b) the 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 the Group's financial statements and could adversely impact future revenues from affected products. See “*The Group faces risks relating to complaints and redress issues from sales of historic financial products which may not be covered by existing provisions*” for further information in relation to complaints and redress from historical sales of financial products and details of the existing provisions;
- (c) the Group may be liable for damages to third parties harmed by the manner in which the Group has conducted one or more aspects of its business.

PPI final deadline and guidance on "Plevin" cases

On 2 March 2017, the FCA published its final rules and guidance on PPI complaints and confirmed a deadline of 29 August 2019 for making new PPI complaints. To encourage consumers to decide whether to complain about PPI before the deadline, the FCA is running a two-year consumer communications campaign, which was launched in August 2017. As a result of this and in line with the industry, the Group is experiencing increased PPI information requests and complaint volumes both from customers and via claims management companies.

The FCA has reached agreement with the industry in relation to the treatment of PPI information requests received between 29 June and 29 August 2019. All such information requests, where PPI is found, are to be automatically converted to complaints by firms. This is to ensure that consumers do not lose the opportunity to make a complaint because the response to their information request straddles the 29 August timebar date.

As a result of both the FCA's communication campaign and the approach to be taken for PPI information requests from 29 June 2019, (a) there may be a need for the CYBG Group to

significantly increase resources, and (b) the ability of the CYBG Group to handle complaints within prescribed regulatory timescales may be affected.

The 2017 final rules and guidance also included rules about how firms should handle complaints in light of the Supreme Court Judgement in *Plevin v Paragon Personal Finance Ltd* [2017] UKSC 23 ("**Plevin**"). The *Plevin* decision means that consumers may complain about PPI because of the amount of commission that the providers received and that the failure to disclose that commission made the relationship unfair. The rules also required firms to proactively contact customers who had previously been rejected. This exercise was completed by the Group. The impact for the Group was limited due to the Group's auto-uphold policy.

On 7 November 2018 the FCA published final rules regarding the treatment of regular premium PPI complaints and associated non-disclosure of commission. Again the impact of these rules is minimal for the Group given the auto-uphold policy referred to above.

Consumer credit regime

The Group is subject to the consumer credit regime under the Financial Services and Markets Act 2000 (the "**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 looks to be taking 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, the 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. The FCA conducted a credit card market study (MS 14/6), published in July 2016, in which they established persistent debt as being an endemic problem for UK consumers. Following a consultation (CP 17/10) on this in 2017, the FCA published Policy Statement 18/4 in February 2018, which outlined their approach to this. This included requirements for firms to implement earlier intervention policies for customers prone to persistent debt, and provision of assistance to those customers. The Group delivered these requirements by the regulatory deadline.

Asset Management

The FCA launched a market study into the asset management sector in November 2015, publishing its interim findings in November 2016 and a final report in June 2017. The final report identified a number of concerns in relation to the UK asset management industry, including a concern that there is weak competition in a number of areas in the market. The FCA also expressed concerns as to how asset managers communicate their objectives to customers. The final report also concluded that investors' awareness of charges is often poor and that sustained, high profits have been generated by firms from such charges in this market over a number of years. The FCA has proposed remedies to address some of these concerns and on 5 April 2018 published a policy statement regarding the implementation of final rules and guidance. The remedies included measures to strengthen the rules on authorised fund managers to act in their investors' best interests, governance reforms to hold asset managers to greater account, a requirement for more independent directors on fund management boards, and more express regulatory requirements on fund managers to consider value for money. Depending on the outcome of the consultation and form of the final guidance / rules, there is a risk that the Group's asset management business, financial condition, results of operations or prospects may be negatively impacted in the future.

2.3 **The Group is subject to the potential impacts of UK and European banking and financial services reform initiatives**

(a) ***General Data Protection Regulation***

The European Commission's General Data Protection Regulation came into force on 25 May 2018 and provides a single set of rules on data protection, directly applicable in all EU Member States. The main provisions include a requirement to notify regulators of breaches within 72 hours of identification, increased sanctions including fines of up to four per cent. of an enterprise's annual worldwide turnover and reduced timelines within which firms must respond to subject access requests (within 30 calendar days). In some circumstances, consumers are also able to request deletion of all personal data held by the data controller and third party recipients.

The Group delivered these requirements by the regulatory deadline. This has significantly increased the regulatory burden in relation to the processing of personal customer, employee and other data in the course of business.

(b) ***CMA – Retail Banking Remedies***

The CMA identified features of the personal and business current account and SME lending markets that were not working well and having an adverse effect on competition. On 2 February 2017, the CMA published the Retail Banking Market Investigation Order 2017 (the "**CMA order**") which implements the remedies identified in the CMA Retail Banking Market Investigation final report. These include overdraft alerting, prompts to switch accounts, enhanced service quality and account comparison information. The Group experienced a delay of one month in the implementation of one part of the CMA order in respect of which it received a direction by the CMA. The Group has now implemented all the mandatory parts of the CMA order. Whilst not mandated to implement the Open Banking remedy element of the CMA order, the Group is working to introduce APIs to facilitate access by third party payment providers ("**TPPs**"), in line with the standards being produced by the Open Banking Implementation Entity. This will also enable the Group to adhere to requirements under the Payment Services Directive 2 (see the paragraph entitled "*Payment Services Directive 2*" below). Aspects of the CMA Open Banking remedy may have an adverse impact on strategic positioning in relation to sales of personal current accounts. Therefore, the Group is looking to progress elements of the Open Banking remedy as part of a wider suite of digital enhancements, in addition to facilitating TPP access as required under Payment Services Directive 2.

(c) ***Payment Services Directive 2 ("PSD2")***

EU Member States were required to transpose PSD2 into national law by 13 January 2018. A key element of PSD2 is that it promotes the emergence of new parties, such as TPPs and requires account servicing payment providers, such as banks, to provide appropriate access and information to these new parties to enable customers to access the new and innovative services TPPs will provide (e.g. account aggregation).

HMT published the UK Payment Services Regulations ("**PSRs**") on 19 July 2017 (the PSRs came into full effect on 13 January 2018 with certain provisions having taken effect on 13 August 2017). The FCA's updated approach to regulating the PSRs and its final handbook changes were published in September 2017. The changes which were introduced are material and the introduction of new players brings a risk of disintermediation. The Group is currently considering its strategic options in relation to the opportunities and threats presented. Other elements of PSD2, including increased security for online payment transactions and secure access to TPPs, will come into force on 14 September 2019. The Group has a project mobilised to implement these changes which will include a significant programme of customer communications. This will help to ensure customers are prepared for the impact of these additional security processes and minimise the impact on customer e-commerce and online banking journeys.

(d) ***Payment Accounts Directive***

The Payment Accounts Directive (“**PAD**”), which came into force in September 2014, introduced measures that banks, and other payment service providers must comply with including facilitation of account switching and ensuring basic bank accounts are available to all EU consumers. These elements were implemented on time in September 2016. The Group has also implemented changes to customer facing documents reflecting the use of mandatory standard terminology in relation to payment accounts. These changes were implemented by 31 October 2018. The residual elements of PAD require the provision of a statement of fees for all eligible payment accounts by 31 October 2019. There is a risk that this timeline is not achieved which would result in a breach of the relevant regulations and consequently adverse regulatory scrutiny.

(e) ***Mortgage Credit Directive***

The Mortgage Credit Directive (the “**MCD**”) came into effect on 20 March 2014 and Member States were required to transpose it into national law by 21 March 2016. The MCD introduced changes to the way in which residential mortgages and consumer buy-to-let mortgages were to be sold, how the annual percentage rate of interest was to be calculated, advertising rules and further requirements for qualifications. The Group delivered the first set of mandatory elements by the 21 March 2016 regulatory deadline. As at the date of these Listing Particulars, work was underway to deliver the remaining elements of the MCD. By 21 March 2019, the Group must switch from the Key Facts Illustration (the sales illustration document for regulated mortgage contracts) to the European Standardised Information Sheet (so-called “**ESIS**”). This will require changes to systems and new training for staff. By March 2019, the Group will also be required to demonstrate that it has ceased to rely on experience alone as an indicator of competency for staff who do not already hold relevant qualifications but are involved in the manufacture or granting of regulated mortgage contracts. The Group has established a project to manage these mandatory changes and is on track to deliver these by the regulatory deadline.

(f) ***Markets in Financial Instruments Directive II***

The Markets in Financial Instruments Directive has been comprehensively revised to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. MiFID II, which came into force on 3 January 2018, imposes significant changes in a number of areas including commodity derivatives, transparency, market structure, organisational requirements, conduct of business rules and transaction reporting. The Group delivered these requirements by the regulatory deadline. There were additional requirements that came into force in April 2018 and June 2018 which have been implemented.

(g) ***Packaged Retail and Insurance-Based Investment Products Regulation***

The PRIIPs Regulation requires those producing or selling packaged retail investment products and insurance based investment products to produce key information documents (“**KIDs**”) to make it easier for retail investors to compare products. The PRIIPs Regulation came into force on 1 January 2018. The Group delivered these requirements by the regulatory deadline.

(h) ***European Market Infrastructure Regulation***

The European Market Infrastructure Regulation (EU) No 648/2012 (“**EMIR**”) was adopted by the European Parliament and European Council on 4 July 2012. It provides a regulatory framework for reporting of information about derivative transactions to trade repositories, mandatory clearing of standardised over-the-counter (“**OTC**”) derivatives, margin posting and other risk mitigation obligations in respect of OTC derivatives, authorisation and supervision of central counterparties used for mandatory clearing, and registration and supervision of trade repositories used for reporting. The Group is subject to reporting, clearing and margining obligations which are in force and implemented.

Changes to reporting obligations came into force and were implemented on 1 November 2017.

These regulations are in the process of being reviewed. Should the Group's implementation of these new requirements prove ineffective, there is an increased risk of non-compliance which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

(i) ***Benchmark Regulation***

Interest rates and indices which are deemed to be "benchmarks" (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark".

The Benchmark Regulation was published in the Official Journal of the EU on 29 June 2016 and has applied since 1 January 2018 with the exception of various provisions specified in Article 59 which have applied since 30 June 2016 and 3 July 2016.

The Benchmark Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (A) requires benchmark administrators to be authorised or registered by the competent authority of the Member State where such administrator is located (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed); and (B) prevents certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks": (A) discourage market participants from continuing to administer or contribute to the "benchmark"; (B) trigger changes in the rules or methodologies used in the "benchmark"; or (C) lead to the disappearance or obsolescence of the "benchmark" or cause such "benchmarks" to perform differently than in the past (as a result of a change in methodology or otherwise). Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a "benchmark".

Should the Group's implementation of requirements prove ineffective, there is an increased risk of non-compliance which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

(j) ***Securities Financing Transaction Regulation***

The Securities Financing Transaction Regulation ("**SFTR**") (Regulation (EU) 2015/2365) requires all securities financing transactions ("**SFTs**") to be reported to trade repositories, places additional reporting requirements on investment managers and introduces prior risk disclosures and written consent before assets are reused. Drafted by the European Parliament in 2015 and approved in 2017, SFTR was adopted by the European Commission (EC) in December 2018.

The go live date will be implemented in stages depending on company types. Go live for banks is expected for Q2 2020, with investment firms, insurance companies and funds to be under scope of SFTR during Q3 and Q4 of 2020. Non-financial firms trading SFTs will be the last to fall under SFTR, with the regulation capturing them in 2021. Should the

Group's implementation of the requirements prove ineffective, there is an increased risk of non-compliance which could result in adverse regulatory scrutiny.

(k) ***High Cost Credit Review***

The FCA launched its High Cost Credit Review in November 2016 to identify patterns and sources of harm to consumers across high cost credit products. It identified arranged and unarranged overdrafts as areas for further review and intervention. The FCA published its final rules for competition remedies and consulted on its pricing remedies in December 2018. Final rules on pricing remedies are expected in Q2 2019. All changes will require to be implemented by early December 2019. The new rules will require the Group to review the current pricing structure of overdrafts. This is likely to have a negative impact on the Group's operating income. An Industry Agreement around Current Account Prompts is also linked to this piece of work, with an earlier implementation of May 2019. The Group has established a project to manage these mandatory changes. This a significant piece of work, both in terms of technology change and customer communication.

(l) ***Price Discrimination in the Cash Savings Market***

The FCA published a Discussion Paper on price discrimination in the cash savings market in July 2018. The Discussion Paper seeks views on the harm caused by price discrimination between new and long-standing customers and what actions, if any, should be taken. The FCA has set out a range of possible remedies, including its preferred policy option of introducing a basic savings rate ("**BSR**"). The BSR option would apply to all easy access cash saving accounts and easy access cash ISAs after they have been open for a set period of time, such as a year. A consultation paper is expected to be published in the first half of 2019.

(m) ***CMA 'loyalty penalty' super-complaint***

Citizens Advice submitted a super-complaint to the CMA in September 2018 calling on the regulator to investigate the overcharging of 'loyal' customers in 5 essential markets (mobile, broadband, home insurance, mortgages and savings) and to identify remedies to fix this problem. Citizens Advice believes that the practice of overcharging loyal customers is widespread and it has repeatedly warned that loyal consumers are being disadvantaged. The CMA published an initial response to the super-complaint in December 2018. This included recommendations to the FCA, where work is currently underway, including the FCA review on the impact of price discrimination in the cash savings market (see the paragraph entitled "Price Discrimination in the Cash Savings Market" above). In mortgages, the FCA is currently undertaking a market study. It is taking immediate action to tackle those who cannot switch in this market (i.e. 'mortgage prisoners') by helping these customers move onto better tariffs, where feasible. The FCA is also looking closely at insurance pricing practices in its current market study. The CMA will review progress in the five markets over the next 12 months. Depending on the outcome of this review, the CMA may call for further action regarding the approach to pricing for existing customers.

3. **RISKS RELATING TO THE NOTES**

3.1 ***The Notes will be subordinated to most of the Issuer's liabilities and the rights of the holders of Conversion Shares.***

The Issuer's obligations under the Notes will be unsecured and subordinated to all of the Issuer's obligations to Senior Creditors. In addition, payment of principal or interest in respect of the Notes cannot be made in respect of the Notes except to the extent that the Issuer could make such payment and still satisfy the Solvency Condition immediately thereafter.

In the event of a Winding-Up (i) prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in Condition 5(a) (Winding-Up prior to a Trigger Event), such amount, if any, as would

have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of Notional Preference Shares ranking *pari passu* as to a return of assets on a winding-up with Parity Obligations and that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding-Up was an amount equal to the principal amount of the relevant Note and any Accrued Interest (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations or (ii) concurrently with or after the occurrence of a Trigger Event, and where an Automatic Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment or any issue or delivery of Conversion Shares by the Issuer), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of such number of Conversion Shares as that Noteholder would have been entitled to receive upon an Automatic Conversion. Therefore, if, on a Winding-Up, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Noteholders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable the Issuer to pay claims arising under its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes (which, in the event of a Winding-Up occurring in the intervening period between a Trigger Event and the Conversion Date, will be claims that rank *pari passu* with ordinary shares of the Issuer), the Noteholders will lose some (which may be substantially all) of their investment in the Notes.

Although the Notes may pay a higher rate of interest than notes which are not subordinated, there is a substantial risk that investors in the Notes will lose all or some of the value of their investment should the Issuer become insolvent. See also "*Regulatory action in the event that a bank in the CYBG Group is failing or likely to fail could materially adversely affect the value of the Notes*".

Furthermore, Noteholders should be aware that, upon the occurrence of an Automatic Conversion, all of the Issuer's obligations under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depository (or to the relevant recipient in accordance with the Conditions), and each Noteholder will be effectively further subordinated due to the change in their status on a Winding-Up after the Conversion Date from being the holder of a debt instrument ranking ahead of holders of ordinary shares to being the holder of ordinary shares of the Issuer or the beneficial owner of ordinary shares of the Issuer as evidenced by the Notes. As a result, upon the occurrence of an Automatic Conversion, the Holders could lose all or part of their investment in the Notes irrespective of whether the Issuer has sufficient assets available to settle what would have been the claims of the Noteholders or other securities subordinated to the same extent as the Notes, in a Winding-Up or otherwise. Therefore, even if other securities that rank *pari passu* with the Notes are paid in full, following the Conversion Date in respect of an Automatic Conversion, the Noteholders will have no rights to the repayment of the principal amount of the Notes or the payment of interest on the Notes and will rank as holders of ordinary shares of the Issuer (or beneficial owners of ordinary shares of the Issuer).

3.2 ***The Issuer is a holding company.***

The Notes will be obligations of the Issuer only. The Issuer is a holding company and conducts substantially all of its operations through its subsidiaries, and accordingly the claims of the Noteholders under the Notes issued by the Issuer will be structurally subordinated to the claims of creditors of its subsidiaries. The Issuer's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except where the Issuer is a creditor of such subsidiary with claims that are recognised to be ranked ahead of or *pari passu* with such claims.

The Issuer plans to fund interest payments under the Notes using cash received from Clydesdale Bank pursuant to intra-group debt instruments issued by Clydesdale Bank and subscribed for by the Issuer with the proceeds of the Notes (and/or distributions from its subsidiaries). Such debt

instruments of Clydesdale Bank will have a legal ranking in the insolvency of Clydesdale Bank that corresponds to the legal ranking of the Notes in the insolvency of the Issuer and are intended to count as an Additional Tier 1 instrument of Clydesdale Bank. However, the Issuer retains its absolute discretion to restructure such debt instruments issued by Clydesdale Bank at any time and for any purpose including, without limitation, in order to provide different amounts or types of capital or funding to Clydesdale Bank or other CYBG Group subsidiaries. A restructuring of such debt instruments could include changes to any or all of their features, including their legal or regulatory form and how they would rank in the insolvency hierarchy as a claim in the liquidation or administration of Clydesdale Bank. Any restructuring of such debt instruments may be implemented by the Issuer without prior notification to, or consent of, the Noteholders. In addition, the terms of such debt instruments will contain contractual mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of the relevant members of the Group, result in a write down of such debt instruments. Such debt instruments may also be subject to the statutory write down and conversion powers or the bail-in tool – see "*Regulatory action in the event that a bank in the CYBG Group is failing or likely to fail could materially adversely affect the value of the Notes*". Any changes in the legal or regulatory form and/or ranking of the debt instruments could also impact their treatment in resolution.

Further, if one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the Noteholders would have no right to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the winding-up, liquidation or dissolution of that subsidiary in respect of its direct or indirect holding of ordinary shares in such subsidiary, if and to the extent that any surplus assets remain following payment in full of the claims of the creditors (which would include the Issuer, for example, in the case of the Clydesdale Bank intra-group debt instruments mentioned above if they had not been converted or cancelled) and preference shareholders (if any) of that subsidiary.

3.3 ***No limitation on issuing senior or pari passu securities.***

The Notes do not contain any restriction on the amount of securities which the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or pari passu with, the Notes. The issue of any such securities and/or the assumption of any such other obligations may reduce the amount recoverable by Noteholders on a Winding-Up and/or may increase the likelihood of a cancellation of interest under the Notes. In addition, the Notes do not contain any restriction on the Issuer issuing securities with preferential rights to the Notes or securities with similar or different provisions to those set out herein.

3.4 ***The Issuer may at any time elect, and in certain circumstances shall be required, not to make payments of interest on the Notes.***

The Issuer may at all times elect at its full discretion to cancel (in whole or in part) the Interest Amount otherwise scheduled to be paid on any Interest Payment Date. Additionally, the Competent Authority has the power under section 55M of the Financial Services and Markets Act 2000 (implementing Article 104 of the CRD IV Directive) to restrict or prohibit payments by an issuer of interest to holders of Additional Tier 1 instruments (such as the Notes).

Furthermore, the Issuer will be required to cancel any Interest Amount (in whole or in part) otherwise scheduled to be paid on an Interest Payment Date to the extent that payment of such Interest Amount would: (i) when aggregated with other specified interest payments or distributions, exceed the Distributable Items of the Issuer as at such Interest Payment Date, (ii) result in the Solvency Condition not being satisfied with respect to payment of such Interest Amount (or part thereof) or; (iii) if and to the extent that such Interest Amount (or part thereof) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of CRD IV (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV or any other relevant provision of applicable law), the "maximum distributable amount" then applicable to the Group (as defined in the Conditions) to be exceeded.

Future legislation changes such as the EU Banking Reform may include additional cancellation features that will require the Issuer to cancel Interest Amounts such as breaching MREL requirements for a period longer than nine months.

In addition, if a Trigger Event occurs, any accrued Interest Amounts shall be deemed to have been cancelled upon the occurrence of such Trigger Event.

With respect to cancellation of interest due to insufficient Distributable Items, see also "*The level of the Issuer's Distributable Items and its available funding is affected by a number of factors, and insufficient Distributable Items (or funding) will (or may) restrict the ability of the Issuer to make interest payments on the Notes.*" below. With respect to cancellation of interest due to the application of a "maximum distributable amount", see also "*CRD IV imposes capital requirements that will restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*" below.

Any Interest Amounts or part thereof not so paid on any such Interest Payment Date shall be cancelled and shall no longer be due and payable by the Issuer. A cancellation of an Interest Amount (or part thereof) in accordance with the Conditions will not constitute a default of the Issuer under the Notes for any purpose.

If the Issuer elects to cancel, or is prohibited from paying, Interest Amounts (or part thereof) at any time, there is no restriction (other than any relevant restriction imposed by any applicable law or regulation) on the Issuer from otherwise making distributions or any other payments to the holders of the ordinary shares of the Issuer or any other securities issued by any member of the CYBG Group, including securities ranking *pari passu* with or junior to the Notes. In determining the interim or final distributions (if any) to be declared in respect of the ordinary shares in respect of any given financial year, the board of directors of the Issuer (the "**Board**") will have regard to all relevant factors which it considers to be appropriate, including the profitability of the Issuer, its resources available for distribution and the capital and liquidity position of the Issuer at the time of declaring the distribution. The obligations of the Issuer under the Notes are senior in ranking to the ordinary shares of the Issuer. It is the Board's current intention that, whenever exercising its discretion to declare any distribution in respect of the ordinary shares, or its discretion to cancel interest on the Notes, the Board will take into account the relative ranking of these instruments in its capital structure or other of its AT1 securities. However, the Board may at any time depart from this policy at its sole discretion.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication that the Common Equity Tier 1 Capital Ratio of the Group is trending towards the combined capital buffer requirement (the level at which the "maximum distributable amount" restriction under CRD IV and the terms and conditions becomes relevant) may have an adverse effect on the market price of the Notes.

3.5 ***The level of the Issuer's Distributable Items and its available funding is affected by a number of factors, and insufficient Distributable Items (or funding) will (or may) restrict the ability of the Issuer to make interest payments on the Notes.***

The Issuer will be required to cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date to the extent that payment of such Interest Amount would, when aggregated with other specified interest payments or distributions, exceed the Distributable Items of the Issuer as at such Interest Payment Date. In addition, the Issuer may exercise its discretion to cancel any Interest Amount otherwise scheduled to be paid on any Interest Payment Date. Further details regarding distributable reserves of the Issuer is given in note 6.5.3 to the financial statements in the 2018 Audited Financial Statements, which are incorporated by reference into these Listing Particulars. As at 30 September 2018, the Issuer had available distributable items of £1,005 million.

As a holding company, the level of the Issuer's Distributable Items will be affected by a number of factors, principally its ability to receive funds, directly or indirectly, from its operating subsidiaries in a manner which creates Distributable Items for the Issuer. The Issuer is also reliant on the receipt

of distributions from its subsidiaries for funding the Issuer's payment obligations. Consequently, the level of the Issuer's Distributable Items and available funding, and therefore its ability to make interest payments on the Notes, are a function of the Issuer's existing Distributable Items, future profitability of the Group and the ability of the Issuer's operating subsidiaries to distribute or dividend profits up the Group structure to the Issuer. In addition, the Issuer's Distributable Items available for making payments to Noteholders may also be adversely affected by the servicing of other instruments issued by the Issuer or by Group subsidiaries.

The level of the Issuer's Distributable Items may be further affected by changes to regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Distributable Items in the future.

Further, the Issuer's Distributable Items and its available funding, and therefore the Issuer's ability to make interest payments under the Notes, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Issuer's control. Adjustments to earnings, as determined by the Board, may fluctuate significantly and may also materially adversely affect Distributable Items.

In addition, the ability of the Issuer's subsidiaries to make distributions and the Issuer's ability to receive distributions and other payments from its investments in other entities is subject to applicable laws and other restrictions, including such subsidiaries' respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws. For example, Clydesdale Bank is an institution regulated by the PRA and subject to the CRD IV regime, including capital and combined buffer requirements such as those described for the Group (see "*CRD IV imposes capital requirements that will restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*"). Similarly, the implementation of MREL under BRRD (each as defined in "*Regulatory Risks—the Group is subject to substantial and changing prudential regulation*"), may increase these requirements. Such laws and regulations could limit the payment of dividends, distributions and other payments to the Issuer by its subsidiaries, which could restrict the Issuer's available funding for meeting its obligations or funding other operations and may also restrict the Issuer's ability to maintain or increase its Distributable Items. These factors could, in turn, restrict the Issuer's ability to make interest payments on the Notes.

3.6 ***CRD IV imposes capital requirements that will restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes.***

The CRD IV Directive requires member states of the EU to impose capital buffer requirements that are additional to the Pillar 1 "own funds" requirement and are required to be met with common equity tier 1 capital. The capital buffers, as currently implemented in the UK, are: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the global systemically important institutions buffer and (iv) the systemic risk buffer. Some or all of these buffers may be applicable to the Group from time to time as determined by a designated authority in the UK.

Furthermore, national supervisors may require additional capital to be held by an institution to cover its idiosyncratic risks which the supervisor assesses are not fully captured by the Pillar 1 "own funds" requirement. This additional capital requirement, referred to as "Pillar 2A", derives from the Issuer's individual capital guidance, which is a point in time assessment that, in respect of UK firms, is made by the PRA, at least annually, and is expected to vary over time. Under current PRA requirements, the Pillar 2A must be met with at least 56 per cent. common equity tier 1 capital and no more than 25 per cent. in tier 2 capital. In addition, the capital that firms use to meet their minimum requirements (Pillar 1 "own funds" and "Pillar 2A") cannot be counted towards meeting the "combined buffer requirement" (which is described below), meaning that the "combined buffer requirement" will effectively be applied above both the Pillar 1 "own funds" and "Pillar 2A" requirements.

Under Article 141 (Restrictions on distributions) of the CRD IV Directive, member states of the EU must require that institutions that fail to meet the "combined buffer requirement" (broadly, as implemented in the UK, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution), the systemic risk buffer and the global systemically important institutions buffer, in each case as applicable to the institution) will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to common equity tier 1, variable remuneration and payments on additional tier 1 instruments).

As at the date of these Listing Particulars, the Group's CET 1 Pillar 2A requirement is 3.6 per cent which incorporates the reduction in risk weighted assets as a result of IRB accreditation of the Issuer. Furthermore, this component also reflects perceived risks relating to the integration of Clydesdale and the Virgin Money Group. The Group expects that this will no longer be required once integration is complete.

The "combined buffer requirement", and the associated restrictions under Article 141 (Restrictions on distributions) of the CRD IV Directive, as implemented in the UK (the "**Article 141 Restrictions**"), have applied since 1 January 2016. In the event of a breach of the "combined buffer requirement", the Article 141 Restrictions will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution since the last decision on the distribution of profits or "discretionary payment" of the institution. Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (as applicable at the level of the Group) the Issuer's discretionary payments will be restricted and the Issuer may exercise its discretion to cancel (in whole or in part) interest payments in respect of the Notes. As at 31 December 2018, the surplus to the Maximum Distributable Amount was 2.9 per cent.

In addition to the Pillar 1 "own funds" requirement, the CRD IV buffers and the "Pillar 2A" requirement described above, there are additional tools that the PRA and other relevant authorities in the UK have available to them to require UK firms to hold additional capital to address micro-prudential or macro-prudential risks as assessed by the relevant authorities in the UK. These include: the "PRA buffer", which may be assessed by the PRA to cover risks over a forward-looking planning horizon, including with regard to firm-specific stresses or management and governance weaknesses; and "sectoral capital requirements", which is a macro-prudential tool available to the FPC of the BoE in the UK as a means for the FPC temporarily to increase firms' capital requirements on exposures to specific sectors. Any failure to meet the PRA buffer could result in the preparation of a capital restoration plan. Such capital restoration plan may impose restrictions on discretionary payments, which may result in a need for management actions including the cancellation (in whole or in part) of interest payments in respect of the Notes.

Moreover, the PRA has a broad power under section 55M of the Financial Services and Markets Act 2000 to impose requirements on the Issuer, the effect of which could be to restrict or prohibit payments of interest on the Notes, which is most likely to materialise if at any time the Group is failing, or is expected to fail, to meet its capital requirements. If the PRA imposes such a requirement, the Issuer will exercise its discretion to cancel (in whole or in part, as required by the PRA) interest payments in respect of the Notes.

Separately, certain aspects of the UK regulatory regime may restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. For example, as described in "*The Group is subject to substantial and changing prudential regulation—Minimum requirement for own funds and eligible liabilities*" above, the BoE has published its policy to implement the BRRD requirement for firms to maintain an MREL requirement. Where a bank falls short of the total requirement for eligible liabilities, then, while there would not be an automatic restriction the PRA may use its powers to restrict or prohibit the firm from making distributions where such a measure is appropriate and proportionate in the circumstances. As a result, the implementation of the MREL requirements in the UK may result in the reduction of discretionary payments (in whole or in part), including the cancellation (in whole or in part) of interest payments in respect of the Notes.

Under the proposed EU Banking Reforms, a new Article 141a is proposed to better clarify, for the purposes of restrictions on distributions, the relation between the additional own funds requirements, the minimum own funds requirements and the combined buffer requirement (the so called "stacking order"), with Article 141 of CRD IV to be amended to reflect the stacking order in the calculation of the Maximum Distributable Amount. Under this new provision, an institution such as the Issuer shall be considered as failing to meet the combined buffer requirement for the purposes of Article 141 of CRD IV where it does not have own funds and eligible liabilities in an amount and of the quality needed to meet at the same time the requirement defined in Article 128(6) of CRD IV (i.e. the combined buffer requirement) as well as each of the minimum own funds requirements and the additional own funds requirements. In addition, a new Article 16a is proposed to be included in the BRRD to better clarify the stacking order between the combined buffer and the MREL requirement. Pursuant to this new provision, a resolution authority shall have the power to prohibit an entity from distributing more than the Maximum Distributable Amount for own funds and eligible liabilities (calculated in accordance with the proposed Article 16a(4) of the BRRD (the "**M-MDA**")) where the combined buffer requirement and the MREL requirement are not met. The proposed Article 16a in its current form envisages a potential nine-month grace period whereby the resolution authority assesses on a monthly basis whether to exercise its powers under the provision before such resolution authority is completed to exercise its power under the provisions (subject to certain limited exceptions). Furthermore, a new Article 141b is proposed which introduces a restriction on distributions in the case of a failure to meet the leverage ratio buffer, with provision for a new leverage ratio Maximum Distributable Amount ("**L-MDA**") to be calculated. The M-MDA and L-MDA are both proposed to limit the same distributions as the Maximum Distributable Amount and so may limit the aggregate amount of interest payments and redemption amounts on the Notes.

The Group's capital resources and requirements are, by their nature, calculated by reference to a number of factors, any one of which or combination of which may not be easily observable or capable of calculation by investors. See *"The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Group."* for examples of the type of factors that can affect the Group's capital resources and requirements and how they are determined. In addition, changes in the application of CRD IV or any changes to such rules may also affect the Group's capital resources and requirements and how they are determined, see *"Future regulatory changes to the calculation of common equity tier 1 capital and/or risk weighted assets may negatively affect the Group's Common Equity Tier 1 Capital Ratio and thus increase the risk of a Trigger Event, which will lead to an Automatic Conversion, as a result of which Noteholders could lose all or part of the value of their investment in the Notes"* below. Any such changes may increase the risk of the Issuer being bound by Article 141 Restrictions and, in turn, the risk of the Issuer exercising its discretion to cancel interest payments in respect of the Notes. Noteholders may not be able to predict accurately the proximity of the risk of discretionary payments on the Notes being prohibited from time to time as a result of the operation of the Article 141 Restrictions and/or the exercise by the PRA of its broad powers to impose prudential requirements on the Issuer. For further information, see the risk factor entitled *"The Group is subject to substantial and changing prudential regulation - Banking Reform Act and structural reform"*.

3.7 *The Notes may be traded with accrued interest, but under certain circumstances described above, such interest may be cancelled and not paid on the relevant Interest Payment Date.*

The Notes may trade, and/or the prices for the Notes may appear, on the Global Exchange Market of Euronext Dublin and/or in other trading systems, with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is cancelled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Notes will not be entitled to that interest payment (or, if the Issuer elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

- 3.8 ***The interest rate on the Notes will reset on each Reset Date, which is expected to affect the interest payable on the Notes and could affect the market value of the Notes.***

The Notes will bear interest at the Initial Interest Rate from (and including) the Issue Date to (but excluding) the First Reset Date. On each Reset Date, the interest rate will be reset to the sum of the relevant Reset Reference Rate and the margin of 8.307 per cent. The relevant Reset Interest Rate could be less than the Initial Interest Rate which could affect the market value of an investment in the Notes.

- 3.9 ***The Notes have no scheduled maturity and Noteholders do not have the right to cause the Notes to be redeemed or otherwise accelerate the repayment of the principal amount of the Notes except in very limited circumstances.***

The Notes will be perpetual securities and have no fixed maturity date or fixed redemption date. Accordingly, the Issuer will be under no obligation to repay all or any part of the principal amount of the Notes, the Issuer has no obligation to redeem the Notes at any time and Noteholders have no right to call for their redemption or otherwise accelerate the repayment of the principal amount of the Notes (except in the very limited circumstances of automatic acceleration following a Winding-Up Event as provided in the conditions below under "*Terms and Conditions of the Notes—Non-Payment when Due and Winding-Up Event*").

- 3.10 ***The Notes are subject to early redemption upon the occurrence of certain events and at certain times.***

Subject to obtaining Supervisory Permission and compliance with the Regulatory Preconditions, the Issuer may, at its option, redeem all (but not some only) of the Notes (i) at any time upon the occurrence of a Tax Event or a Regulatory Event or (ii) on the Reset Date and on any Reset Date thereafter, at their principal amount together with any Accrued Interest.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed.

If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Noteholders may only be able to reinvest the redemption proceeds in securities with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

- 3.11 ***The Notes will not contain events of default and the Noteholders will have limited remedies.***

Payments in respect of the Notes may only be accelerated in the event of the occurrence of a Winding-Up Event. There is no right of acceleration in the case of non-payment of principal or interest on the Notes or of the Issuer's failure to perform any of its obligations under or in respect of the Notes.

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes is, subject to certain conditions and to the provisions set forth in Condition 13 (Non-Payment when due and Winding-Up Event), for the Trustee to institute proceedings in a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) for the winding-up of the Issuer and/or prove and/or claim in a Winding-Up.

Although the Trustee may institute such proceedings against the Issuer as it may think fit to enforce a Performance Obligation (as defined in the Conditions), the Trustee (acting on behalf of the Noteholders but not the Trustee acting in its personal capacity under the Trust Deed) and the Noteholders shall not enforce, and shall not be entitled to enforce or otherwise claim, against the Issuer any judgment or other award given in such proceedings that requires the payment of money by the Issuer, whether by way of damages or otherwise (a "**Monetary Judgment**"), except by proving and/or claiming such Monetary Judgment in a Winding-Up.

3.12 ***Waiver of set-off***

As set out in Condition 4(b) (*No set-off*) Noteholders waive any right of set-off, compensation or retention in respect of the Notes, insofar as permitted by applicable law. Therefore, Noteholders will not be entitled (subject to applicable law) to set-off the Issuer's obligations under the Notes against obligations owed by them to the Issuer.

3.13 ***Upon the occurrence of a Trigger Event, Noteholders will lose all or some of the value of their investment in the Notes.***

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Group. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions. One of these relates to the ability of the Notes, and the proceeds of their issue, to be available to absorb any losses of the Issuer. Accordingly, a Trigger Event shall occur if the Common Equity Tier 1 Capital Ratio of the Group (calculated without applying the transitional provisions set out in part Ten of the CRD IV Regulation) falls below 7 per cent.

Upon the occurrence of a Trigger Event, an Automatic Conversion will occur on the Conversion Date, at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depository to be held on behalf of the Holders (or to the relevant recipient in accordance with terms of the Notes), and under no circumstances shall such released obligations be reinstated. As a result, Holders could lose all or part of the value of their investment in the Notes, as, following an Automatic Conversion, Holders will receive only (i) the Conversion Shares (if the Issuer does not elect that a Conversion Shares Offer be made) or (ii) the Conversion Shares Offer Consideration, which shall comprise Conversion Shares and/or cash depending on the results of the Conversion Shares Offer (if the Issuer elects that a Conversion Shares Offer be made), and the realisable value of any Conversion Shares received may be significantly less than the Conversion Price. In addition, the realisable value of any Conversion Shares received could be substantially lower than that implied by the price paid for the Notes at the time of their purchase and, upon an Automatic Conversion, Noteholders will no longer have a debt claim in relation to the Notes.

Furthermore, upon the occurrence of an Automatic Conversion, the Holders will not be entitled to any compensation in the event of any improvement in the Group's Common Equity Tier 1 Capital Ratio after the Conversion Date.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. Accordingly, investors may be unable to predict accurately if and when a Trigger Event may occur. See "*The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Group*" below.

The Notes may also be written off, written down, converted into ordinary shares of the Issuer or otherwise modified in a manner which is materially adverse to investors in circumstances where the BoE or other resolution authorities exercise powers under EU and UK recovery and resolution regimes. See "*Regulatory action in the event that a bank in the CYBG Group is failing or likely to fail could materially adversely affect the value of the Notes*" below.

3.14 ***Holders will bear the risk of changes in the Group's Common Equity Tier 1 Ratio.***

The market price of the Notes is expected to be affected by changes in the Group's Common Equity Tier 1 Ratio. Any decline or perceived decline in the Common Equity Tier 1 Capital Ratio may have an adverse effect on the market price of the Notes, and such adverse effect may be particularly significant if there is any indication or expectation that the Common Equity Tier 1 Capital Ratio is, or may be moving towards, 7.00 per cent. See "*The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Group*" and "*Future regulatory changes to the calculation of common equity tier 1 capital and/or risk weighted assets may negatively affect the Group's Common Equity Tier 1 Ratio and thus increase the risk of a Trigger Event, which will lead*

to an Automatic Conversion, as a result of which Noteholders could lose all or part of the value of their investment in the Notes".

The Issuer intends to report publicly the Group's Common Equity Tier 1 Ratio only when public financial reporting is conducted, and therefore during the intervening periods there may be no published updates to the Group's Common Equity Tier 1 Ratio. In addition, there may be no prior warning of adverse changes in the Group's Common Equity Tier 1 Ratio. However, any indication that the Group's Common Equity Tier 1 Ratio is moving towards the level of a Trigger Event may have an adverse effect on the market price of the Notes.

3.15 *The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Group.*

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, including those discussed in greater detail in the following paragraphs, any of which may be outside the control of the Issuer. Although the Issuer intends to report publicly the Group's Common Equity Tier 1 Capital Ratio only when public financial reporting is conducted, a Trigger Event may occur at any time. The PRA, as part of its supervisory activity, may instruct the Issuer to calculate such ratio at any time, including when the Issuer is subject to recovery and resolution actions by the relevant UK resolution authority, or the Issuer may otherwise at any time calculate such ratio at its own discretion.

The Group's Common Equity Tier 1 Capital Ratio may fluctuate between public financial reporting periods. The calculation of such ratio could be affected by one or more factors, including, among other things, changes in the mix of the Group's business, major events affecting its earnings, distributions payments by the Issuer, regulatory changes (including changes to definitions and calculations of the Common Equity Tier 1 Capital Ratio and its components, including Common Equity Tier 1 and Risk Weighted Assets) and the Group's ability to manage its Risk Weighted Assets. Actions that the Issuer takes could also affect its Common Equity Tier 1 Ratio, including causing it to decline. For example, any growth in the Risk Weighted Assets may result in a reduction in the Common Equity Tier 1 Ratio if not matched by an increase in the Common Equity Tier 1 Capital at a corresponding rate.

The calculation of the Group's Common Equity Tier 1 Capital Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as at the relevant calculation date, the PRA could require the Issuer to reflect such changes in any particular calculation of the Group's Common Equity Tier 1 Capital Ratio.

Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Group's calculations of regulatory capital, including Common Equity Tier 1 and Risk Weighted Assets and the Group's Common Equity Tier 1 Capital Ratio.

Because of the inherent uncertainty regarding whether a Trigger Event will occur, it will be difficult to predict when, if at all, a Trigger Event and subsequent Automatic Conversion may occur. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of securities. Any indication that a Trigger Event and subsequent Automatic Conversion may occur can be expected to have a material adverse effect on the liquidity and/or market price of the Notes.

3.16 *The Group's Common Equity Tier 1 Capital Ratio and, more generally, its overall capital position will be affected by the Group's business decisions and, in making such decisions, the Group's interests may not be aligned with those of the Noteholders.*

As discussed in "*The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Group.*" above, the Group's Common Equity Tier 1 Capital Ratio and, more generally, its overall respective capital position could be affected by a number of factors, including the Group's decisions relating to its businesses and operations, as well as the management of its

capital position. Neither the Issuer nor any member of the Group will have any obligation to consider the interests of the Noteholders in connection with its strategic decisions, including in respect of its capital management. Noteholders will not have any claim against the Issuer or any other member of the Group relating to decisions that affect the business and operations of the Group, including the Group's capital position, regardless of whether they result in the occurrence of a Trigger Event or a cancellation of interest payments in respect of the Notes. Such decisions could cause the Noteholders to lose all or part of the value of their investment in the Notes.

3.17 ***Future regulatory changes to the calculation of common equity tier 1 capital and/or risk weighted assets may negatively affect the Group's Common Equity Tier 1 Capital Ratio and thus increase the risk of a Trigger Event, which will lead to an Automatic Conversion, as a result of which Noteholders could lose all or part of the value of their investment in the Notes.***

As discussed in "*Regulatory Risks—The Group is subject to substantial and changing prudential regulation*" above, CRD IV introduced significant changes in the prudential regulatory regime applicable to banks. CRD IV permitted a transitional period for certain of the enhanced capital requirements. However, in the UK, the PRA accelerated the introduction of certain of the enhanced capital requirements under CRD IV and, consistent with that, for the purposes of the Notes, the Issuer will determine the Group's Common Equity Tier 1 Capital and Risk Weighted Assets without applying the CRD IV transitional provisions and will instead determine the Group's Common Equity Tier 1 Capital Ratio on a so-called "fully loaded" basis (i.e. applying all of CRD IV in the form that the Group currently expects to apply). The Group's interpretation of CRD IV and the basis of its calculation of the Group's Common Equity Tier 1 Capital Ratio may be different from those of other financial institutions. For more information on the CYBG Group's capital position see "*Information on the Group – Capital*". For the purposes of the Notes, the calculation by the Group's Common Equity Tier 1 Capital Ratio (based on its interpretation of the Regulatory Capital Requirements) at any time is binding on the Trustee and the Noteholders.

CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, including the EU Banking Reforms, binding regulatory technical standards developed by the EBA or changes to the way in which the PRA interprets and applies these requirements to UK banks. For example, such further changes may arise from the Basel Committee revisions to the standardised approach to credit risk, including imposition of a standardised floor on modelled credit risk capital requirements. Any such resulting changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's CRD IV capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

Therefore, any changes that may occur in the application of the CRD IV rules in the UK subsequent to the date of these Listing Particulars and/or any subsequent changes to such rules and other variables may individually and/or in the aggregate negatively affect the Group's Common Equity Tier 1 Capital Ratio and thus increase the risk of a Trigger Event, which will lead to an Automatic Conversion, as a result of which a Noteholder could lose all or part of the value of its investment in the Notes.

For further information, see also the risk factor entitled "*The Group is subject to substantial and changing prudential regulation - Minimum requirement for own funds and eligible liabilities*".

3.18 ***As the Conversion Price is fixed at the time of issue of the Notes, Holders will bear the risk of fluctuations in the market price of the Conversion Shares.***

Because a Trigger Event will only occur at a time when the Group's Common Equity Tier 1 Ratio has deteriorated significantly, a Trigger Event may be accompanied by a deterioration in the market price of the Issuer's ordinary shares, which may be expected to continue after the occurrence of the Trigger Event. Therefore, following a Trigger Event, the realisable value of the Conversion Shares may be below the Conversion Price. The Conversion Price is fixed at the time of issue of the Notes at £1.19 per Conversion Share, and is subject to certain anti-dilution adjustments, as described under "*Holdings do not have anti-dilution protection in all circumstances.*" below. As a result, the Conversion Price may not reflect the market price of ordinary shares of the Issuer, which could be significantly lower than the Conversion Price.

In addition, there may be a delay in a Holder receiving its Conversion Shares following a Trigger Event (in particular if the Issuer elects that a Conversion Shares Offer be conducted, as the Conversion Shares Offer Period may last up to 40 Business Days after the delivery of the Conversion Shares Offer Notice), during which time the market price of the ordinary shares of the Issuer may further decline.

3.19 ***Issuance of the Conversion Shares to the Conversion Shares Depositary shall constitute a complete, irrevocable and automatic release of all of the Issuer's obligations in respect of the Notes.***

Upon an Automatic Conversion, the Issuer shall issue the Conversion Shares to the Conversion Shares Depositary, which will hold the Conversion Shares on behalf of the Holders. Issuance of the Conversion Shares to the Conversion Shares Depositary shall constitute a complete, irrevocable and automatic release of all of the Issuer's obligations in respect of the Notes. Provided that the Issuer issues the Conversion Shares to the Conversion Shares Depositary in accordance with the terms of the Notes, with effect from the Conversion Date, Holders shall have recourse only to the Conversion Shares Depositary for the delivery to them of Conversion Shares or, if the Issuer elects that a Conversion Shares Offer be made, of any Conversion Shares Offer Consideration to which such Holders are entitled.

In addition, the Issuer has not, as at the Issue Date, appointed a Conversion Shares Depositary and the Issuer may not be able to appoint a Conversion Shares Depositary if an Automatic Conversion occurs. In such a scenario, the Issuer would give notice to the Holders and the Trustee in accordance with the Conditions of any alternative arrangements as it shall consider reasonable in the circumstances in connection with the issuance and/or delivery of the Conversion Shares and such arrangements may be disadvantageous to, and more restrictive on, the Holders. For example, such arrangements may involve Holders having to wait longer to receive their Conversion Shares than would be the case under the arrangements expected to be entered into with a Conversion Shares Depositary. Under these circumstances, the Issuer's issuance of the Conversion Shares to the relevant recipient in accordance with these alternative arrangements shall constitute a complete, irrevocable and automatic release of all of the Issuer's obligations in respect of the Notes as if the Conversion Shares had been issued to the Conversion Shares Depositary.

3.20 ***Holders may receive Conversion Shares Offer Consideration instead of Conversion Shares upon a Trigger Event and would not know the composition of any Conversion Shares Offer Consideration until the end of the Conversion Shares Offer Period.***

Holders may not ultimately receive Conversion Shares upon a Trigger Event because the Issuer may elect, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Conversion Shares Depositary.

The Conversion Shares Offer may be conducted at the election of the Issuer, in its sole and absolute discretion, on the terms set out in the Conditions. The Issuer currently expects that in determining whether or not a Conversion Shares Offer shall be conducted and, if one is to be conducted, how and to whom such Conversion Shares Offer shall be made, the directors of the Issuer would, in accordance with their duties, have regard to a variety of matters, including, without limitation, the interests of the Issuer's shareholders, taken as a whole, and the potential impact of a Conversion Shares Offer on the Issuer's financial stability.

If the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Conversion Shares Depositary and all of the Conversion Shares are sold in the Conversion Shares Offer, Holders shall be entitled to receive, in respect of each Note, the pro rata share of the cash proceeds from the sale of the Conversion Shares attributable to such Note. If some but not all of the Conversion Shares are sold in the Conversion Shares Offer, Holders shall be entitled to receive, in respect of each Note, (a) the pro rata share of the cash proceeds from the sale of the Conversion Shares attributable to such Note together with (b) the pro rata share of the Conversion Shares not sold pursuant to the Conversion Shares Offer attributable to such Note rounded down to the nearest whole number of Conversion Shares. In each case, the cash component of any Conversion Shares Offer Consideration shall be subject to deduction of an amount equal to the pro rata share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence

of the transfer of Conversion Shares to the Conversion Shares Depositary as a consequence of the Conversion Shares Offer.

No interest or other compensation is payable in respect of the period elapsed from the Conversion Date to the date of delivery of cash sums or Conversion Shares in the circumstances described above.

Furthermore, the Issuer or the Conversion Shares Depositary will provide notice of the results of any Conversion Shares Offer only at the end of the Conversion Shares Offer Period. Accordingly, Holders would not know the composition of the Conversion Shares Offer Consideration to which they may be entitled until the end of the Conversion Shares Offer Period.

- 3.21 ***Following an Automatic Conversion, the Notes will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary and the rights of the Holders will be limited accordingly.***

Following an Automatic Conversion, the Notes will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary. All obligations of the Issuer under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient in accordance with the terms of the Notes) on the Conversion Date, and under no circumstances shall such released obligations be reinstated. The Notes shall be cancelled on the applicable Cancellation Date.

Although the Issuer currently expects that beneficial interests in the Notes will be transferable between the Conversion Date and the Suspension Date, there is no guarantee that an active trading market will exist for the Notes following the Automatic Conversion. Accordingly, the price received for the sale of any beneficial interest under a Note during this period may not reflect the market price of such Note or the Conversion Shares. Furthermore, transfers of beneficial interests in the Notes may be restricted following the Conversion Date, for example if the clearance and settlement of transactions in the Notes is suspended by a Clearing System at an earlier time than currently expected. In such a situation it may not be possible to transfer beneficial interests in the Notes in such Clearing System and trading in the Notes may cease through such Clearing System.

In addition, the Issuer expects that each of the Clearing Systems will suspend all clearance and settlement of transactions in the Notes on the Suspension Date. As a result, Holders will not be able to settle the transfer of any Notes through such Clearing System following the Suspension Date, and any sale or other transfer of the Notes that a Holder may have initiated prior to the Suspension Date with respect to such Clearing System that is scheduled to match or settle after the Suspension Date will be rejected by such Clearing System and will not be matched or settled through such Clearing System.

The Notes may cease to be admitted to listing on the official list of Euronext Dublin and to trading on the Global Exchange Market before or after the Suspension Date.

Moreover, although the Holders will become beneficial owners of the Conversion Shares upon the issuance of such Conversion Shares to the Conversion Shares Depositary and the Conversion Shares will be registered in the name of the Conversion Shares Depositary (or the relevant recipient in accordance with the terms of the Notes), no holder will be able to sell or otherwise transfer any Conversion Shares until such time as they are finally delivered to such holder and registered in their name.

- 3.22 ***Holders will have to submit a Conversion Shares Settlement Notice in order to receive delivery of the Conversion Shares or the Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable.***

In order to obtain delivery of the relevant Conversion Shares or the Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable, a Holder must deliver a Conversion Shares Settlement Notice (and the relevant Notes, if applicable) to the Conversion

Shares Depository. The Conversion Shares Settlement Notice must contain certain information, including the holder's CREST account details. Accordingly, Noteholders (or their nominee, custodian or other representative) will have to have an account with CREST in order to receive the Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable. If a Noteholder fails to properly complete and deliver a Conversion Shares Settlement Notice on or before the Notice Cut-off Date, the Conversion Shares Depository shall continue to hold the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration until a Conversion Shares Settlement Notice (and the relevant Notes, if applicable) is (or are) so delivered. However, the relevant Notes shall be cancelled on the Final Cancellation Date and any Noteholder delivering a Conversion Shares Settlement Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the relevant Conversion Shares (or the relevant Conversion Shares component, if any, of any Conversion Shares Offer Consideration) satisfactory to the Conversion Shares Depository in its sole and absolute discretion in order to receive delivery of such Conversion Shares (or Conversion Share component of any Conversion Shares Offer Consideration). The Issuer shall have no liability to any Noteholder for any loss resulting from such Noteholder not receiving any Conversion Shares (or Conversion Share component of any Conversion Shares Offer Consideration) or from any delay in the receipt thereof, in each case as a result of such holder failing to duly submit a Conversion Shares Settlement Notice and the relevant Notes, if applicable, on a timely basis or at all.

3.23 ***Holders do not have anti-dilution protection in all circumstances.***

The number of Conversion Shares to be issued to the Conversion Shares Depository upon an Automatic Conversion will be the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date divided by the Conversion Price prevailing on the Conversion Date (rounded down to the nearest whole number of Conversion Shares). The Conversion Price will be adjusted if there is a consolidation, reclassification or subdivision of the Issuer's ordinary shares, an issuance of ordinary shares in certain circumstances by way of capitalisation of profits or reserves, a rights issue, an Extraordinary Dividend or a Qualifying Takeover Event (but only in the situations and only to the extent provided in "*Terms and Conditions of the Notes—Adjustments to the Conversion Price*"). There is no requirement that there should be an adjustment for every corporate or other event that may affect the market price of the Conversion Shares. Furthermore, the adjustment events that are included are less extensive than those often included in the terms of voluntarily convertible securities. Accordingly, the occurrence of events in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Notes.

3.24 ***If a Takeover Event occurs, the Notes may be convertible into shares in an entity other than the Issuer.***

If a Takeover Event is a Qualifying Takeover Event (and, on the Conversion Date, the shares of the Acquirer continue to be Approved Entity Shares), then following an Automatic Conversion the Notes shall become convertible or exchangeable into the Approved Entity Shares of the Acquirer at the New Conversion Price as provided under "*Terms and Conditions of the Notes—Adjustments to the Conversion Price—Qualifying Takeover Event*". There can be no assurance as to the nature of any such Acquirer, that shares designated as Approved Entity Shares will continue to be Approved Entity Shares on the Conversion Date (and as such, whether a Qualifying Takeover Event shall remain a Qualifying Takeover Event), or of the risks associated with becoming an actual or potential shareholder in such Acquirer and, accordingly, a Qualifying Takeover Event may have an adverse effect on the value of the Notes.

In addition, the Issuer has considerable discretion in determining whether a Qualifying Takeover Event has occurred. A Qualifying Takeover Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, among other requirements, the Issuer must determine, in its sole and absolute discretion, that the arrangements to deliver Approved Entity Shares following an Automatic Conversion are in place and that such arrangements would be in the best interest of the Issuer and its shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Holders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body). Therefore, the Issuer may consider factors other than the interests of Holders in determining whether the New Conversion Condition is satisfied.

In the case of a Takeover Event that is not a Qualifying Takeover Event (including if that is because the Acquirer is a Governmental Entity or because on the Conversion Date the Acquirer's Shares are not Approved Entity Shares), with effect from the occurrence of the Takeover Event (or the date on which the Acquirer's Shares cease to be Approved Entity Shares) and unless a Conversion Date shall have occurred prior to the date of such Takeover Event (or the date on which the Acquirer's Shares cease to be Approved Entity Shares), outstanding Notes shall not be subject to Automatic Conversion into shares of the Acquirer at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) (or where the Conversion Date occurs on or after the date of such Takeover Event) the Notes shall be converted into ordinary shares in the Issuer in accordance with Condition 9(a) as if no Takeover Event had occurred.

Approved Entity Shares means ordinary shares in the capital of a body corporate that constitutes equity share capital or the equivalent (or depository or other receipts representing the same) which are listed and admitted to trading on a Recognised Stock Exchange provided that ordinary shares shall not be Approved Entity Shares if the conversion, or possible conversion, of the Notes into those ordinary shares would have an effect of the kind referred to in either of paragraphs (ii) or (iii) of Condition 8(d) on the Issuer (an "Adverse Tax Effect") and such Adverse Tax Effect arises as a consequence of the fact that the Notes would not be "hybrid capital instruments" for the purposes of section 475C of the Corporation Tax Act 2009; and ordinary shares shall cease to be Approved Entity Shares if such ordinary shares are initially Approved Entity Shares, but subsequently would have an Adverse Tax Effect on or before the Conversion Date.

There can be no assurance that a Takeover Event will be a Qualifying Takeover Event or that the Acquirer's Shares will continue to be Approved Entity Shares after the Issuer has determined that a Qualifying Takeover Event has occurred.

Further, a Takeover Event shall occur only where the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in an Acquirer (together with any associate). There can be no assurance that the acquisition by an Acquirer of the right to cast 50 per cent. or less of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer will not have an adverse effect on the value of the Notes.

3.25 ***Holders may be subject to disclosure obligations, take-over requirements and/or may need approval from the Issuer's regulator under certain circumstances.***

As the Holders may receive Conversion Shares if a Trigger Event occurs, an investment in the Notes may result in Holders having to comply with certain disclosure, take-over and/or regulatory approval requirements pursuant to applicable laws and regulations following an Automatic Conversion. For example, pursuant to Chapter 5 of the Disclosure Rules and Transparency Rules Sourcebook of the FCA Handbook, the Issuer (and the FCA) must be notified by a person when the percentage of voting rights in the Issuer controlled by that person (together with its concert parties), by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches, exceeds or falls below 3 per cent. and every percentage point thereafter.

Furthermore, as Conversion Shares represent voting securities of a parent undertaking of regulated group entities, under the laws of the UK and other jurisdictions, ownership of the Notes themselves (or the Conversion Shares) above certain levels may require the holder of the voting securities to obtain regulatory approval or subject the holder to additional regulation.

Non-compliance with such disclosure and/or approval requirements may lead to the incurrance of substantial fines or other criminal and/or civil penalties and/or suspension of voting rights associated with the Conversion Shares. Accordingly, each potential investor should consult its legal advisers as to the terms of the Notes, in respect of its existing shareholding and the level of holding it would have if it receives Conversion Shares following a Trigger Event.

- 3.26 ***Prior to the Conversion Date, Holders will not be entitled to any rights with respect to the Issuer's ordinary shares, but will be subject to all changes made with respect to the Issuer's ordinary shares.***

Any pecuniary and other rights with respect to Conversion Shares, in particular the entitlement to dividends shall only arise and the exercise of voting rights and certain other rights related to any Conversion Shares is only possible after the issue, registration and delivery of the Conversion Shares on the Conversion Date to the Conversion Shares Depository (or the relevant recipient) in accordance with the provisions of, and subject to the limitations provided in, the articles of association of the Issuer and under "*Terms and Conditions of the Notes—Automatic Conversion*". Prior to such issuance, registration and delivery, Holders will be subject to all changes made with respect to the Issuer's ordinary shares.

- 3.27 ***As a result of Holders receiving Conversion Shares upon the occurrence of a Trigger Event, they are particularly exposed to changes in the market price of the Issuer's ordinary shares.***

In general, investors in convertible or exchangeable securities may seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities. Prospective investors in the Notes may look to sell ordinary shares of the Issuer in anticipation of taking a position in, or whilst holding, the Notes. This could drive down the price of the Issuer's ordinary shares. Since the Notes will mandatorily convert into Conversion Shares upon the occurrence of a Trigger Event, the price of the Issuer's ordinary shares may be more volatile if the Issuer is trending toward a Trigger Event.

- 3.28 ***Regulatory action in the event that a bank in the CYBG Group is failing or likely to fail could materially adversely affect the value of the Notes.***

As described further under "*Regulatory Risks—The Group is subject to substantial and changing prudential regulation—Recovery and Resolution*", 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. The BoE and PRA's Resolvability Assessment Framework is expected to be fully implemented by 2021.

The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks, investment firms and certain of their affiliates in the event a bank or investment firm in the same group is considered to be failing or likely to fail. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of the Notes

Under the Banking Act, substantial powers have been granted to the Authorities as part of the Statutory Resolution Regime (SRR). Each of the five stabilisation options in the SRR is achieved through the exercise of one or more "stabilisation powers", which include (i) the power to make share transfer orders pursuant to which all or some of the securities issued by a relevant entity may be transferred to a commercial purchaser, a bridge bank or, in the case of certain relevant entities, the UK government; (ii) the resolution instrument power which may make provision for bail-in; (iii) the power to transfer all or some of the property, rights and liabilities of a relevant entity to a commercial purchaser or BoE entity; and (iv) the third country instrument powers that recognise the effect of similar special resolution action taken under the law of a country outside the EEA (a "**third country**"). A share transfer order can extend to a wide range of securities, including shares and bonds issued by a relevant entity and warrants for such shares and bonds and could, therefore, apply to the Notes. In addition, the Banking Act grants powers to modify contractual arrangements in certain circumstances (which could include a variation of the Conditions), powers to suspend enforcement or termination rights that might be invoked as a result of the exercise of the resolution powers and powers for the relevant Authority to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

The Authorities must have regard to specified objectives (the protection and enhancement of the stability of the UK financial system, protecting and enhancing public confidence in the stability of the UK banking system, protecting depositors, protecting public funds and avoiding interference with property rights in contravention of the European Convention on Human Rights) when exercising the stabilisation powers.

The exercise of any resolution power or any suggestion of any such exercise could materially adversely affect the value of the Notes and could lead to the Noteholders losing some or all of the value of their investment in the Notes.

The SRR is designed to be used prior to insolvency of the Issuer and Noteholders may not be able to anticipate the exercise of any resolution power by the relevant Authority.

The stabilisation options are intended to be used prior to the point at which any insolvency proceedings with respect to the relevant entity could have been initiated. The purpose of the stabilisation options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if the relevant Authority (a) is satisfied that a UK bank or investment firm is failing, or is likely to fail, (b) determines that it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of a UK bank or investment firm that will result in condition (a) above ceasing to be met; (c) considers the exercise of the stabilisation powers to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors, being some of the special resolution objectives) and (d) considers that the special resolution objectives would not be met to the same extent by the winding-up of the UK bank or investment firm. In the event that the Authorities seek to exercise their powers in relation to a UK banking group company (such as the Issuer), the relevant Authority has to be satisfied that (A) the conditions set out in (a) to (d) above are met in respect of a UK bank or investment firm in the same banking group (or, in respect of an EEA or third country credit institution or investment firm in the same banking group, the relevant EEA or third country resolution authority is satisfied that the conditions for resolution applicable in its jurisdiction are met) and (B) certain criteria are met, such as the exercise of the powers in relation to such UK banking group company being necessary having regard to public interest considerations. The use of different stabilisation powers is also subject to further "specific conditions" that vary according to the relevant stabilisation power being used.

The EBA guidelines on the circumstances in which an institution shall be deemed as 'failing or likely to fail' by supervisors and resolution authorities have applied since 1 January 2016. The guidelines set out the objective elements and criteria which should apply when supervisors and resolution authorities make such a determination and further provide guidance on the approach to consultation and exchange of information between supervisors and resolution authorities in such scenarios.

Although the Banking Act provides for the conditions described above to the exercise of any resolution powers and the EBA guidelines mentioned above set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the relevant Authority would assess such conditions in any particular pre-insolvency scenario affecting the Issuer and/or other members of the CYBG Group and in deciding whether to exercise a resolution power. The relevant Authority is also not required to provide any advance notice to the Noteholders of its decision to exercise any resolution power. Therefore, the Noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer, the CYBG Group and the Notes.

Noteholders may have only very limited rights to challenge the exercise of any resolution powers by the relevant Authority.

Noteholders may have only very limited rights to challenge and/or seek a suspension of any decision of the relevant Authority to exercise its resolution powers or to have that decision reviewed by a judicial or administrative process or otherwise.

The bail-in tool may be exercised in respect of all liabilities not excluded or protected, including the Notes, which may result in the Noteholders losing some or all of their investment in the Notes.

The relevant Authority may exercise the bail-in tool to enable it to recapitalise an institution in resolution by allocating losses to its shareholders and unsecured creditors (which includes the Noteholders) in a manner that (i) reflects the hierarchy of capital instruments under CRD IV and otherwise ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent

with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the 'no creditor worse off' safeguard). Certain liabilities are excluded from the scope of the bail-in tool, such as liabilities to the extent they are secured. The Banking Act also grants the powers for the relevant Authority to exclude any liability or class of liabilities on certain prescribed grounds (including financial stability grounds) and subject to specified conditions.

The bail-in tool includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class to another. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the Notes into shares or other securities or other obligations of the Issuer or another person, including by means of a variation to the Conditions, in each case, to give effect to the exercise by the relevant Authority of such power.

Where the relevant statutory conditions for intervention under the SRR and the use of the bail-in tool have been met, the relevant Authority would be expected to exercise these powers without the consent of the Noteholders.

The exercise of any resolution power, including the power to exercise the bail-in tool in relation to the Issuer and the Notes or any suggestion of any such exercise could materially adversely affect the rights of the Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and could lead to the Noteholders losing some or all of the value of their investment in the Notes. In addition, even in circumstances where a claim for compensation is established under the 'no creditor worse off' safeguard in accordance with a valuation performed after the resolution action has been taken, it is unlikely that such compensation would be equivalent to the full losses incurred by the Noteholders in the resolution and there can be no assurance that Noteholders would recover such compensation promptly.

Mandatory write-down and conversion of capital instruments may affect the Notes, which may result in Noteholders losing some or all of their investment in the Notes.

In addition, the Banking Act requires the relevant Authority to write-down permanently, or convert into equity, Tier 1 capital instruments (such as the Notes) and Tier 2 capital instruments at the point of non-viability of the relevant entity and before or together with the exercise of any stabilisation option (except in the case where the bail-in tool is to be utilised for other liabilities, in which case such instrument would be written down or converted into equity pursuant to the exercise of the bail-in tool, as described above, rather than the mandatory write-down and conversion power applicable only to capital instruments).

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity will no longer be viable unless the relevant capital instruments are written-down or converted or the relevant entity requires extraordinary public support without which, the relevant Authority determines that, the relevant entity would no longer be viable.

The Noteholders may be subject to write-down or conversion into equity on application of such powers (without requiring the Noteholders' consent), which may result in the Noteholders losing some or all of their investment. The 'no creditor worse off' safeguard would not apply in relation to an application of such powers in circumstances where a stabilisation option is not also used. The exercise of such mandatory write-down and conversion power under the Banking Act or any suggestion of such exercise could, therefore, materially adversely affect the rights of the Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

3.29 ***Credit Rating.***

The Notes are expected to be rated by credit rating agencies and may in the future be rated by additional independent credit rating agencies (including on an unsolicited basis), although the

Issuer is under no obligation to ensure that the Notes are rated by any credit rating agency. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the credit rating agency at any time. See also "A downgrade in the credit rating of the Issuer, Clydesdale Bank, Virgin Money and/or any other member of the Group, the UK banking sector or the UK Government may have an adverse effect on the Group's business, results of operations, financial condition and prospects" above.

If one or more credit ratings are not assigned to the Notes, if the Issuer determines to no longer maintain one or more credit ratings, if any other independent credit rating agency decides to assign a rating to the Notes, or if any credit rating agency withdraws, suspends or downgrades any credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), such event could adversely affect the liquidity or market value of the Notes.

3.30 ***The Notes are not expected to be investment grade and are subject to the risks associated with non-investment grade securities.***

The Notes, upon issuance, are not expected to be investment grade securities, and as such will be subject to a higher risk of price volatility than higher-rated securities. Furthermore, increases in leverage or deteriorating outlooks for the Issuer, or volatile markets, could lead to a significant deterioration in market prices of below-investment grade rated securities such as the Notes.

3.31 ***Changes in law may adversely affect the rights of Holders.***

Changes in law after the date hereof may affect the rights of Holders as well as the market value of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes.

In addition, any change in law or regulation that triggers a Regulatory Event or a Tax Event would entitle the Issuer, at its option (subject to prior permission of the Competent Authority and to compliance with prevailing prudential requirements), to redeem the Notes, in whole but not in part, as provided under "*Terms and Conditions of the Notes—Redemption and Purchase*".

Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes, including those described above, could have on the Notes.

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the CYBG Group's business, financial performance, capital and risk management strategies – see "*Regulatory risks*" above. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the CYBG Group's, and therefore the Issuer's, performance and financial condition, which could in turn affect the levels of Common Equity Tier 1 Capital and Risk Weighted Assets and, therefore, the resulting Common Equity Tier 1 Ratio. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the CYBG Group or the Holders, which could be material.

3.32 ***There is no active trading market for the Notes.***

The Notes are new securities for which no active trading market may develop. If a market does develop, it may not be liquid or may become illiquid at a later stage. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the official list of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin, there is no assurance that such application will be accepted or that an active

trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

3.33 ***Because the Global Notes will be held by or on behalf of the Clearing Systems, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The Notes will be represented by the Global Certificate, except in certain limited circumstances described in the Global Certificate. The Global Certificate will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depositary for the Clearing Systems. Individual Certificates evidencing holdings of Notes will only be available in certain limited circumstances. The Clearing Systems maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for the Clearing Systems for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the Clearing Systems to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders are permitted to act only to the extent that they are enabled by the Clearing Systems to appoint appropriate proxies.

3.34 ***Minimum Denomination.***

As the Notes will have a denomination consisting of the minimum denomination plus an integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £200,000 (or its equivalent) that are not integral multiples of £200,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Certificate in respect of such holding (should Individual Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination. Further, a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at, or in excess of, the minimum denomination such that its holding amounts to the minimum denomination.

3.35 ***Limitation on gross-up obligation under the Notes.***

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes applies only to payments of interest due and paid under the Notes and not to any payments of principal. As such, the Issuer would not be required to pay any additional amounts to the extent any withholding or deduction applied to any payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Noteholders may receive less than the full principal amount due under the Notes, and the market value of the Notes may be adversely affected.

3.36 ***The Trust Deed will contain provisions which may permit modification of the Notes without the consent of all Holders.***

The Trust Deed will contain provisions permitting modifications and amendments to the Notes without the consent of the Holders and with the consent of a specified quorum and majority of the outstanding Notes in other circumstances. Valid resolutions passed by such Holders will bind all Holders including those Holders that did not attend and vote at the relevant meeting and those Holders who voted in a manner contrary to the majority.

3.37 *The Notes will not be 'protected liabilities' for the purposes of any UK Government compensation scheme.*

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms paying compensation to customers if the firm is unable, or likely to be unable, to pay certain claims (including in respect of deposits and insurance policies) made against it (together, "**Protected Liabilities**").

The Notes will not, however, be Protected Liabilities under the FSCS and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes substantially as they will appear in the trust deed constituting the Notes

The £250,000,000 9.25 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further Notes issued pursuant to Condition 18 which are consolidated and form a single series with the Notes) of CYBG PLC (the "**Issuer**") are constituted by a trust deed dated 13 March 2019 (as amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons from time to time being trustee or trustees appointed under the Trust Deed) as trustee for the Noteholders.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 13 March 2019 (as amended and/or restated and/or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, the Registrar and the other Agents and the Trustee are available for inspection during normal business hours by prior arrangement by the Noteholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof (each, an "**Authorised Denomination**").

The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same Holder.

Title to the Notes shall pass by registration in the register of the Noteholders that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**Holder**" means the person in whose name a Note is registered in the register of Noteholders (or, in the case of a joint holding, the first named thereof).

2. TRANSFER OF NOTES

(a) *Transfer of Notes*

One or more Notes may, subject to Condition 2(d), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. A new Certificate shall be issued to the transferee in respect of the Notes the subject of the relevant transfer and, in the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate in respect of the balance of the Notes not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of Notes and

entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within five business days of receipt of the form of transfer and surrender of the relevant Certificate. Delivery of new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery and surrender of such form of transfer and Certificate or, as the case may be, surrender of such Certificate, shall have been made or, at the option of the relevant Holder and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b) "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Register (as the case may be).

(c) *Transfers Free of Charge*

Transfers of Notes and the issue of new Certificates on transfer shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) *Closed Periods*

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the date fixed for redemption of the Notes pursuant to Condition 8, (ii) at any time after the second Business Day following the giving of an Automatic Conversion Notice by the Issuer or (iii) during the period of seven days ending on (and including) any Record Date.

3. **STATUS**

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu*, without any preference among themselves. In the event of a Winding-Up of the Issuer, the rights and claims of the Holders in respect of or arising from the Notes (including any damages (if payable)) are subordinated to the claims of Senior Creditors.

4. **SUBORDINATION**

(a) *Solvency Condition*

Except in a Winding-Up of the Issuer and subject to the right or obligation of the Issuer to cancel payments under Condition 6(a) and the provisions of Condition 9, all payments in respect of or arising from (including any damages awarded for breach of any obligation under) the Notes are conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Notes (and any such payments will be deemed to be cancelled) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**").

In these Conditions, the Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Balance Sheet Condition has been met.

The "**Balance Sheet Condition**" shall be satisfied in relation to the Issuer if the value of its assets is at least equal to the value of its liabilities (taking into account its contingent and prospective liabilities), according to the criteria that would be applied by the High Court of Justice of England and Wales (or the relevant authority of such other jurisdiction in which the Issuer may be organised) in determining whether the Issuer is "unable to pay its debts" under section 123(2) of the U.K. Insolvency Act 1986 or any amendment or re-enactment thereof (or in accordance with the corresponding provisions of the applicable laws of such other jurisdiction in which the Issuer may be organised).

A certificate as to the solvency of the Issuer signed by two Authorised Signatories shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Noteholders as correct, conclusive and sufficient evidence thereof.

Any payment of interest not due by reason of this Condition 4(a) shall be deemed cancelled as provided in Condition 6(a).

(b) *No set-off*

Subject to applicable law, no Noteholder may exercise or claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes or the Trust Deed and each Noteholder will, by virtue of their holding of any Note, be deemed, to the fullest extent permitted by applicable law, to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts due and payable to any Noteholder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

(c) *Effect on the Trustee*

As stated in further detail in Condition 17(e), the provisions of this Condition 4 apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in this Condition 4 or in Conditions 5, 7 or 13 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

5. **WINDING-UP**

(a) *Winding-Up prior to a Trigger Event*

If:

- (i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Holders and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);
- (ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009,

(each, a "**Winding-Up**") prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in this Condition 5(a)), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") ranking *pari passu* as to a return of assets on a winding-up with Parity Obligations and that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding-Up was an amount equal to the principal amount of the relevant Note and any accrued but unpaid interest thereon (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations in respect of such Note.

(b) *Winding-Up with or after the occurrence of a Trigger Event*

If a Winding-Up occurs concurrently with or after the occurrence of a Trigger Event, and where an Automatic Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment or any issue or delivery of Conversion Shares by the Issuer), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of such number of Conversion Shares as that Noteholder would have been entitled to receive upon an Automatic Conversion in accordance with Condition 9.

6. **INTEREST**

(a) *Cancellation of interest*

Mandatory cancellation of interest- insufficient Distributable Items

To the extent required to do so under the then prevailing Regulatory Capital Requirements, the Issuer will cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date and such Interest Amount (or part thereof) will not be due to the extent that such Interest Amount (or part thereof), when aggregated together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current financial year on all other own funds items of the Issuer (excluding any such interest payments or distributions which are not required to be paid or made out of Distributable Items or which have already been provided for, by way of deduction, in calculating the amount of Distributable Items), exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date.

Mandatory Cancellation of Interest – Maximum Distributable Amount

To the extent required to do so under the then prevailing Regulatory Capital Requirements, the Issuer will cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date if and to the extent that such Interest Amount (or part thereof) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of Directive 2013/36/EU (the "**CRD IV Directive**") (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced or any other relevant provision of applicable law), the Maximum Distributable Amount (if any) then applicable to the Group to be exceeded. "**Maximum Distributable Amount**" means any applicable maximum distributable amount relating to the Group required to be calculated in accordance with Article 141 of the CRD IV Directive (or, as the case may be, any provision of applicable law transposing or implementing the CRD IV Directive, as amended or replaced or any other relevant provision of applicable law). The Issuer shall be responsible for determining compliance

with the restrictions above and neither the Trustee nor any Agent shall be required to monitor such compliance or to perform any calculations in connection therewith.

Mandatory cancellation of interest – Solvency Condition

The Issuer will cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date to the extent that the Solvency Condition is not satisfied in respect of such Interest Amount (or part thereof).

The Issuer shall be responsible for determining compliance with the restrictions above and neither the Trustee nor any Agent shall be required to monitor such compliance or to perform any calculations in connection therewith.

Discretionary cancellation of interest

In addition to and subject to the mandatory non-payment of interest pursuant to Condition 4(a), the foregoing provisions of this Condition 6(a) and Condition 9, the Issuer may at all times elect at its full discretion to cancel (in whole or in part) the Interest Amount otherwise scheduled to be paid on any Interest Payment Date.

Non-payment of interest sufficient evidence of cancellation

If the Issuer does not pay an Interest Amount or part thereof on the relevant Interest Payment Date, such non-payment shall evidence either the non-payment and cancellation of such Interest Amount (or relevant part thereof) by reason of it not being due in accordance with Condition 4(a), the cancellation of such Interest Amount (or relevant part thereof) in accordance with this Condition 6(a) or with Condition 9 or, as appropriate, the Issuer's exercise of its discretion to cancel such Interest Amount (or relevant part thereof) in accordance with this Condition 6(a), and accordingly such interest shall not in any such case be due and payable.

If the Issuer provides notice to cancel a part, but not all, of an Interest Amount and the Issuer subsequently does not make a payment of the remaining part of such Interest Amount on the relevant Interest Payment Date, such non-payment shall evidence the Issuer's exercise of its discretion to cancel such remaining part of the Interest Amount, and accordingly such remaining portion of the Interest Amount shall also not be due and payable.

Notice of cancellation of interest

The Issuer shall provide notice of any cancellation of an Interest Amount (or part thereof) to the Noteholders (in accordance with Condition 15), the Trustee and the Agents as soon as possible. If practicable, the Issuer shall endeavour to provide such notice at least five Business Days prior to the relevant Interest Payment Date. Any failure to provide such notice shall not affect the cancellation of any Interest Amount (or any part thereof) by the Issuer and shall not constitute a default for any purpose.

Interest non-cumulative

The non-payment or cancellation of any Interest Amount (or any part thereof) in accordance with Condition 4(a), this Condition 6(a) or Condition 9 shall not constitute a default for any purpose (including, without limitation, Condition 13) on the part of the Issuer. For the avoidance of doubt, interest payments are non-cumulative and the Noteholders shall have no right to any cancelled Interest Amount, whether under the Notes or the Trust Deed, on a Winding-Up or otherwise. The Issuer may use such cancelled payments without restriction to meet its obligations as they fall due.

(b) *Interest Rate and Interest Payment Dates*

The Notes bear interest on their outstanding principal amount:

- (i) from and including the Issue Date to but excluding 8 June 2024 (the "**First Reset Date**"), at the rate of 9.25 per cent. per annum (the "**Initial Interest Rate**"); and
- (ii) thereafter, at the relevant Reset Interest Rate,

which interest is, in each case, payable, subject to Conditions 4(a), 6(a), 7 and 9, semi-annually in arrear on 8 June and 8 December of each year (each an "**Interest Payment Date**"), except that the first date on which interest may be paid will be on 8 June 2019 (also, an "**Interest Payment Date**") in respect of the period beginning on (and including) the Issue Date and ending on (but excluding) 8 June 2019. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

(c) *Calculation of interest*

Interest in respect of any Note shall be calculated per Calculation Amount. The amount of interest payable (subject to Conditions 4(a), 6(a), 7 and 9) in respect of a Note for a Calculation Period shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day-Count Fraction for the relevant period, (ii) rounding the resultant figure to the nearest penny (half a penny being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the principal amount of such Note and the denominator of which is the Calculation Amount.

Subject to Conditions 4(a), 6(a), 7 and 9, the Interest Amount payable in respect of the first Interest Period will (if paid in full) amount to £21.79 per Calculation Amount and the Interest Amount payable in respect of any other Interest Period commencing prior to the First Reset Date will (if paid in full) amount to £46.25 per Calculation Amount.

(d) *Reset Interest Rate*

The "**Reset Interest Rate**" in respect of any Reset Period will be the rate of interest determined by the Agent Bank on the relevant Reset Determination Date as the sum of:

- (i) the Reset Reference Rate in respect of the Reset Period (expressed as a rate per annum); and
- (ii) the Margin.

In these Conditions (except where otherwise defined), the expression:

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"**Margin**" means 8.307 per cent. per annum;

"**Reset Determination Date**" means, in relation to a Reset Period, the day falling two Business Days prior to the Reset Date on which such Reset Period commences;

"**Reset Period**" means the period from (and including) the First Reset Date to (but excluding) the next succeeding Reset Date, and each successive period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

"**Reset Reference Banks**" means five leading gilt dealers in the principal interbank market relating to sterling selected by the Issuer; and

"**Reset Reference Rate**" means in respect of the relevant Reset Period, the gross redemption yield (as calculated by the Agent Bank in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (rounded up (if

necessary) to four decimal places) of the Benchmark Gilt in respect of the relevant Reset Period, with the price of the Benchmark Gilt for the purpose of determining the gross redemption yield being the arithmetic average rounded (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. Such quotations shall be obtained by or on behalf of the Issuer and provided to the Agent Bank. If at least four quotations are provided, the Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Rate will be determined by reference to the rounded quotation provided. If no quotations are provided, the Reset Reference Rate shall be the Reset Reference Rate in respect of the immediately preceding Reset Period or, in the case of the calculation of the first Reset Reference Rate, the Initial Interest Rate (less the Margin), where:

- (A) "**Benchmark Gilt**" means, in respect of the relevant Reset Period, such United Kingdom government security customarily used in the pricing of new issues having a maturity date on or about the next succeeding Reset Date as the Issuer (on the advice of an investment bank of international repute) may determine to be appropriate following any guidance published by the International Capital Market Association at the relevant time; and
- (B) "**dealing day**" means a day on which the London Stock Exchange plc (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities.

(e) *Publication of Reset Interest Rate*

The Issuer shall cause the Agent Bank to give notice of the relevant Reset Interest Rate to the Issuer, the Agents, the Trustee and to any stock exchange on which the Notes are at the relevant time listed or admitted to trading or other relevant authority (by no later than the relevant Reset Determination Date) and to be notified to Noteholders in accordance with Condition 15 as soon as possible after their determination, but in no event later than the fourth Business Day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

(f) *Notifications, etc. to be final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether from or by the Reset Reference Banks (or any of them) or the Agent Bank or the Issuer or any agent appointed by the Issuer, will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agent Bank and all Noteholders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Noteholders shall attach to the Reset Reference Banks (or any of them) in connection with any such quotations or the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

(g) *Interest accrual*

Without prejudice to Conditions 4(a), 6 and 9, each Note will cease to bear interest from and including its date fixed for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue in

accordance with, and subject to, the Conditions (both before and after judgment) until whichever is the earlier of (a) the day on which such principal is received by or on behalf of the relevant Noteholder and (b) the day which is seven days after any of the Agents or the Trustee has notified the Noteholders that it has received such principal.

7. PAYMENTS

(a) *Principal*

Payments of principal shall be made by sterling cheque drawn on, or, upon application by a Holder of a Note to the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a sterling account maintained by the payee with, a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(b) *Interest*

Payments of interest shall be made by sterling cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the relevant Interest Payment Date or the date fixed for redemption (if any), by transfer to a sterling account maintained by the payee with, a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 11 (Taxation). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payment on Business Days*

Subject to Conditions 6, 8 and 9, where payment is to be made by transfer to a sterling account, payment instructions (for value the relevant Interest Payment Date or the date fixed for redemption (if any), as the case may be, or, if such date is not a payment business day, for value the next succeeding payment business day) will be initiated and, where payment is to be made by sterling cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the date fixed for redemption and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the relevant Interest Payment Date. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the date fixed for redemption or the relevant Interest Payment Date not being a payment business day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the payment date or being lost in the mail. In this Condition 7(d), "**payment business day**" means any day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.

(f) *Record date*

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the relevant date fixed for redemption (if any) or the relevant Interest Payment Date (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(g) *Agents*

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (i) there will at all times be a Principal Paying Agent and an Agent Bank;
- (ii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (iii) there will at all times be a Transfer Agent; and
- (iv) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 15.

8. **REDEMPTION AND PURCHASE**

(a) *No fixed redemption date*

The Notes are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem or purchase them in accordance with the following provisions of this Condition 8. The Issuer shall not be entitled to deliver a notice of redemption after an Automatic Conversion Notice has been delivered.

(b) *Redemption at the option of the Issuer*

The Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on the First Reset Date or on any Reset Date thereafter at their principal amount together with any Accrued Interest.

(c) *Redemption for regulatory reasons*

Subject to Condition 8(f), if there is a change in the regulatory classification of the Notes which becomes effective on or after the Issue Date that results, or would be likely to result, in the whole or any part of the principal amount of the Notes at any time being excluded from the Group's Tier 1 Capital (a "**Regulatory Event**"), the Issuer may, in its sole discretion but having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at their principal amount together with any Accrued Interest.

Prior to giving notice of redemption in accordance with this Condition 8(c), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Notes pursuant to this Condition 8(c) have been met. Such certificate shall be treated by the Issuer, the Trustee, the Holders and all other interested parties as correct, conclusive and sufficient evidence thereof.

(d) *Redemption for tax reasons*

Subject to Condition 8(f), if as a result of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which the Relevant Jurisdiction is a party, or a change in an official application of those laws or regulations which change or amendment becomes effective on or after the Issue Date, including a decision of any court or tribunal which becomes effective on or after the Issue Date:

- (i) the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, Additional Amounts in respect of the Notes; or
- (ii) the Issuer is not or would not be entitled to claim a deduction in computing its taxable profits and losses in respect of interest payable on the Notes, or such a deduction is or would be reduced or deferred; or
- (iii) the Issuer is not or would not, as a result of the Notes being in issue, be able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which the Issuer is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist);
- (iv) the Issuer would be required to bring into account any amount of income, profit or gain or other tax credit or taxable item for tax purposes, or any other liability to tax would arise in respect of the write-down of the Notes, the conversion of the Notes into shares, or both (including, pursuant to these Conditions or as a result of the exercise of any regulatory powers under the Banking Act 2009); or
- (v) the Notes or any part thereof are or would become treated as a derivative or embedded derivative for tax purposes,

(each, a "**Tax Event**"), the Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 15, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at an amount equal to their principal amount together with any Accrued Interest.

Prior to giving notice of redemption in accordance with this Condition 8(d), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Notes pursuant to this Condition 8(d) have been met. Such certificate shall be treated by the Issuer, the Trustee, the Holders and all other interested parties as correct, conclusive and sufficient evidence thereof.

(e) *Purchases*

The Issuer or any of its Subsidiaries may, at its option but subject to the Solvency Condition and Supervisory Permission, purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements. All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, cancelled.

(f) *Conditions to redemption*

Any redemption under Conditions 8(b), 8(c) or 8(d) is subject to the Issuer obtaining Supervisory Permission and to compliance with the Regulatory Preconditions.

In addition, if the Issuer has elected to redeem the Notes and:

- (i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption; or
- (ii) prior to the redemption a Trigger Event occurs,

the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and no payment of the redemption amount will be due and payable. In the case of (i), the Issuer shall give notice thereof to the Noteholders (in accordance with Condition 15), the Trustee and the Agents as soon as practicable or, in the case of (ii), the Automatic Conversion shall occur in accordance with Condition 9.

(g) *Cancellation*

All Notes which are redeemed by the Issuer pursuant to this Condition 8 will be cancelled.

(h) *Notices final*

Upon the expiry of any notice as is referred to in Condition 8(b), 8(c) or 8(d), the Issuer shall be bound (subject in all circumstances only to Condition 8(f)) to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

(i) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to investigate whether any condition to redemption under this Condition 8 has occurred and (i) shall not be responsible to Noteholders for any loss arising from any failure by it to do so and (ii) shall be entitled to assume, unless it has actual knowledge to the contrary, that no such condition to redemption has occurred and that all Supervisory Permissions and/or Regulatory Preconditions have been satisfied. The Trustee shall rely without further investigation and without liability as aforesaid on any certificate delivered to it in connection with this Condition 8.

9. **AUTOMATIC CONVERSION**

(a) *Automatic Conversion on a Trigger Event*

If a Trigger Event occurs at any time, then an Automatic Conversion will occur on the Conversion Date at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released by the Holders in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary on the Conversion Date at the then prevailing Conversion Price. Under no circumstances shall such released obligations be reinstated. If the Issuer has been unable to appoint a Conversion Shares Depositary, it shall make such other arrangements for the issuance and/or delivery of the Conversion Shares or Conversion Shares Offer Consideration, as applicable, to the Holders as it shall consider reasonable in the circumstances, which may include issuing the Conversion Shares to another nominee for the Holders or to the Holders directly, which issuance shall irrevocably and automatically release all of the Issuer's obligations under the Notes as if the Conversion Shares had been issued to the Conversion Shares Depositary.

Whether a Trigger Event has occurred shall be determined by the Issuer or the Competent Authority and such determination shall be binding on Noteholders.

The Issuer shall immediately notify the Competent Authority of the occurrence of the Trigger Event and the Automatic Conversion shall occur without delay upon the

occurrence of a Trigger Event and by no later than one month following such Trigger Event (or such shorter period as the Competent Authority may then require).

If a Trigger Event has occurred, the Issuer shall deliver an Automatic Conversion Notice to the Holders in accordance with Condition 15 and the Trustee and the Agents without delay after such time. Notwithstanding Condition 15, the Automatic Conversion Notice shall be deemed to have been given on the date on which it is dispatched to the Trustee and the Holders.

On or (if reasonably practicable) prior to giving the Automatic Conversion Notice, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Trigger Event has occurred and the Trustee shall be entitled (without further investigation or liability) to accept such certificate as sufficient evidence of the occurrence of such event, in which event such certificate shall be conclusive and binding on the Trustee and the Holders.

Within 10 Business Days following the Conversion Date, the Issuer shall deliver a Conversion Shares Offer Notice to the Trustee directly and to the Holders in accordance with Condition 15.

The Notes are not convertible into Conversion Shares at the option of the Noteholders at any time.

(b) *Consequences of Automatic Conversion*

- (i) Following an Automatic Conversion, no Holder will have any rights against the Issuer with respect to the repayment of the principal amount of the Notes or the payment of interest or any other amount on or in respect of such Notes, which liabilities of the Issuer shall be irrevocably and automatically released and, accordingly, the principal amount of the Notes shall equal zero at all times thereafter. Any Interest Amount in respect of an Interest Period ending on any Interest Payment Date falling between the date of a Trigger Event and the Conversion Date shall be deemed to have been automatically and irrevocably cancelled upon the occurrence of such Trigger Event and shall not be due and payable.
- (ii) Following the issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as contemplated above and as applicable) on the Conversion Date, the Notes shall remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the Holder's right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary (or such other relevant recipient).
- (iii) Provided that the Issuer issues and delivers the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as contemplated above) in accordance with these Conditions, with effect from the Conversion Date, Holders shall have recourse only to the Conversion Shares Depositary (or to such other relevant recipient, as applicable) for the delivery to them of Conversion Shares or, if the Issuer elects that a Conversion Shares Offer be made pursuant to Condition 9(d) below, of any Conversion Shares Offer Consideration to which such Holders are entitled.
- (iv) If the Issuer fails to issue and deliver the Conversion Shares to be issued and delivered on an Automatic Conversion to the Conversion Shares Depositary (or to the relevant recipient as contemplated above) in accordance with the Conditions, a Holder's only right under the Notes against the Issuer for any such failure will be to claim to have such Conversion Shares so issued and delivered.

(c) *Conversion Shares*

- (i) The Conversion Shares shall initially be registered in the name of the Conversion Shares Depositary (which shall hold the Conversion Shares on behalf of the Holders) or the relevant recipient as contemplated above, and each Holder shall be deemed to have irrevocably directed the Issuer to issue the Conversion Shares corresponding to the conversion of its holding of Notes to the Conversion Shares Depositary (or to such other relevant recipient).
- (ii) The number of Conversion Shares to be issued to the Conversion Shares Depositary on the Conversion Date shall be determined by dividing the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date by the Conversion Price prevailing on the Conversion Date rounded down, if necessary, to the nearest whole number of Conversion Shares. Fractions of Conversion Shares will not be issued following an Automatic Conversion and no cash payment will be made in lieu thereof.

The number of Conversion Shares to be held by the Conversion Shares Depositary for the benefit of each Holder shall be the number of Conversion Shares thus calculated multiplied by a fraction equal to the aggregate amount of the Authorised Denomination of the Notes held by such Holder divided by the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date, rounded down, if necessary, to the nearest whole number of Conversion Shares.

- (iii) The Conversion Shares issued following an Automatic Conversion will be fully paid and non-assessable and will in all respects rank *pari passu* with the Issuer's fully paid ordinary shares in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law, and except that the Conversion Shares so issued will not rank for (or, as the case may be, the relevant Holder shall not be entitled to receive) any rights, the entitlement to which falls prior to the Conversion Date.
- (iv) The Conversion Shares Depositary (or the relevant recipient in accordance with these Conditions, as applicable) shall hold the Conversion Shares on behalf of the Holders, who shall be entitled to direct the Conversion Shares Depositary or such other recipient, as applicable, to exercise on their behalf all rights of an ordinary shareholder (including voting rights and rights to receive dividends) except that Holders shall not be able to sell or otherwise transfer the Conversion Shares until such time as they have been delivered to Holders in accordance with the procedures set forth in Condition 9(e).
- (v) If a Qualifying Takeover Event shall have occurred, then, where the Conversion Date falls on or after the QTE Effective Date, Approved Entity Shares of the Approved Entity shall be issued to the Conversion Shares Depositary on the Conversion Date instead of Conversion Shares, in accordance with Condition 10(e).
- (vi) The Conversion Shares or the Conversion Shares Offer Consideration, as the case may be, will be delivered to Holders pursuant to the procedures set out in Condition 9(e) below.

(d) *Conversion Share Offer*

- (i) No later than 10 Business Days following the Conversion Date, the Issuer may, in its sole and absolute discretion, elect that the Conversion Shares Depositary make an offer of all or some of the Conversion Shares to all or some of the Issuer's ordinary shareholders at such time at a cash price per Conversion Share equal to the Conversion Price, subject as provided below (the "**Conversion**

Shares Offer"). The Issuer may, on behalf of the Conversion Shares Depositary, appoint a Conversion Shares Offer Agent to act as placement or other agent to facilitate the Conversion Shares Offer.

- (ii) The Issuer will deliver a Conversion Shares Offer Notice to the Trustee directly and to the Holders in accordance with Condition 15 within 10 Business Days following the Conversion Date specifying whether or not it has elected that a Conversion Shares Offer be conducted. If so elected, the Conversion Shares Offer Period, during which the Conversion Shares Offer may be made, shall end no later than 40 Business Days after the giving by the Issuer of the Conversion Shares Offer Notice.
- (iii) Any Conversion Shares Offer shall be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Issuer, in its sole and absolute discretion, determines that the Conversion Shares Offer is practicable. The Issuer or the purchasers of the Conversion Shares sold in any Conversion Shares Offer shall bear the costs and expenses of any Conversion Shares Offer (other than the taxes referred to in the definition of Conversion Shares Offer Consideration), including the fees of the Conversion Shares Offer Agent, if any. If a prospectus or other offering document is required to be prepared in connection with a Conversion Shares Offer, the Issuer will facilitate the preparation of such prospectus or other offering document, and the Issuer and/or its directors will take responsibility for such prospectus or other offering document, in each case, if and to the extent then required by applicable laws and regulations then in effect. In addition, if so requested by the Conversion Shares Depositary as offeror, the Issuer shall indemnify the Conversion Shares Depositary for any losses incurred in connection with any Conversion Shares Offer.
- (iv) Upon completion of the Conversion Shares Offer, the Issuer or the Conversion Shares Depositary will provide notice to the Trustee and the Holders in accordance with Condition 15 of the composition of the Conversion Shares Offer Consideration (and of the deductions to the cash component, if any, of the Conversion Shares Offer Consideration (as set out in the definition of Conversion Shares Offer Consideration)) per Calculation Amount.
- (v) The Issuer reserves the right, in its sole and absolute discretion, to terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period by providing at least three Business Days' notice to the Trustee directly and to the Holders in accordance with Condition 15, and, if it does so, the Issuer may, in its sole and absolute discretion, take steps (including changing the Suspension Date) to deliver to Holders the Conversion Shares at a time that is earlier than the time at which they would have otherwise received the Conversion Shares Offer Consideration had the Conversion Shares Offer been completed.
- (vi) By its subscription for, purchase or other acquisition of the Notes, each Holder acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Conversion Shares Depositary such Holder shall be deemed to have: (i) irrevocably consented to any Conversion Shares Offer and to the Conversion Shares Depositary using the Conversion Shares to settle any Conversion Shares Offer in accordance with these Conditions, (ii) consented to the transfer of the beneficial interest it holds in the Conversion Shares to the Conversion Shares Depositary in connection with the Conversion Shares Offer in accordance with these Conditions, (iii) irrevocably agreed that the Issuer, the Conversion Shares Depositary and the Conversion Shares Offer Agent, if any, may take any and all actions necessary to conduct the Conversion Shares Offer in accordance with these Conditions, and (iv) agreed that none of the Issuer, the Trustee, the Conversion Shares Depositary, if any, or the Conversion Shares Offer Agent, if any, shall, to the extent permitted by applicable law, incur any liability to the

Holders in respect of the Conversion Shares Offer (except for the obligations of the Conversion Shares Depositary in respect of the Holders' entitlement to any Conversion Shares Offer Consideration).

- (vii) Neither the occurrence of a Trigger Event nor, following the occurrence of a Trigger Event, the election (if any) by the Issuer to undertake a Conversion Shares Offer on the terms set out herein, shall preclude the Issuer from undertaking a rights issue at any time on such terms as the Issuer deems appropriate, at its sole discretion, including, for the avoidance of doubt, the offer of ordinary shares at or below the Conversion Price.

(e) *Settlement Procedure*

Delivery of the Conversion Shares or Conversion Shares Offer Consideration, as applicable, to the Holders will be made in accordance with the following procedures:

- (i) The Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will be delivered to Holders in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless the Conversion Shares are not a participating security in CREST at the relevant time, in which case the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will either be delivered in the form of the relevant clearing system in which the Conversion Shares are a participating security or in certificated form, as notified by the Issuer to the Holders in accordance with Condition 15. Where the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are to be delivered through CREST or such other clearing system in which such Conversion Shares are a participating security, they will be delivered to the account specified by the relevant Holder in the relevant Conversion Shares Settlement Notice.
- (ii) Where the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are to be delivered in certificated form, the name of the relevant Holder (or its nominee) will be entered in the Issuer's share register and a certificate in respect thereof will be dispatched by mail free of charge to the relevant Holder or as it may direct in the relevant Conversion Shares Settlement Notice.
- (iii) The cash component, if any, of any Conversion Shares Offer Consideration will be paid to the Holders (A) if the relevant Conversion Shares Settlement Notice is not delivered to the Conversion Shares Depositary before the end of the Conversion Shares Offer Period, by Sterling cheque drawn on a bank in London and mailed to their address shown on the Register on or around the date on which the Conversion Shares Offer Period ends, or (B) if the relevant Conversion Shares Settlement Notice is delivered to the Conversion Shares Depositary before the end of the Conversion Shares Offer Period, by transfer on or around the date on which the Conversion Shares Offer Period ends to such Sterling account maintained by the payee with a bank in London as the Holder may direct in such notice.
- (iv) The Conversion Shares (and the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will not be available for delivery (A) to, or to a nominee for, Clearstream, Luxembourg or Euroclear or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (B) to a person, or nominee or agent for a person, whose business is or includes issuing depository receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the "abolition day" as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom, or, if earlier, such other time

at which the Issuer, in its absolute discretion, determines that no charge under Section 67, 70, 93 or 96 of the Finance Act 1986 or any similar charge (under any successor legislation) would arise as a result of such delivery or (C) to the CREST account of such a person mentioned in (A) or (B).

- (v) Neither the Issuer, nor any member of the Group shall be liable for any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the delivery of Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration), which tax shall be borne solely by the Holder or, if different, the person to whom the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are delivered.
- (vi) The Conversion Shares Offer Notice shall specify the Suspension Date. On the Suspension Date, the Issuer shall deliver a Conversion Shares Settlement Request Notice to the Trustee directly and to the Holders in accordance with Condition 15. Such notice shall request that Holders complete a Conversion Shares Settlement Notice and shall specify the Notice Cut-off Date and the Final Cancellation Date.
- (vii) In order to obtain delivery of the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable, a Holder must deliver its Conversion Shares Settlement Notice to the Conversion Shares Depository (or to the relevant recipient as contemplated above) on or before the Notice Cut-off Date. If such delivery is made after the end of normal business hours at the specified office of the Conversion Shares Depository (or of the relevant recipient), such delivery shall be deemed for all purposes to have been made or given on the next following Business Day. The Conversion Shares Settlement Notice must be delivered to the specified office of the Conversion Shares Depository (or of the relevant recipient) together with the relevant Notes.

Each Conversion Shares Settlement Notice shall be irrevocable. Failure to properly complete and deliver a Conversion Shares Settlement Notice and the relevant Notes, if applicable, may result in such notice being treated by the Conversion Shares Depository as null and void. Any determination as to whether any Conversion Shares Settlement Notice has been properly completed and delivered shall be made by the Conversion Shares Depository (or by the relevant recipient) in its sole and absolute discretion and shall be conclusive and binding on the relevant holder.

- (viii) Subject as provided herein and provided the Conversion Shares Settlement Notice and the relevant Notes, if applicable, are delivered on or before the Notice Cut-off Date, the Conversion Shares Depository (or to the relevant recipient) shall deliver the relevant Conversion Shares (rounded down to the nearest whole number of Conversion Shares) or Conversion Share component, if any, of any Conversion Shares Offer Consideration (rounded down to the nearest whole number of Conversion Shares), as applicable, to the Holder of the relevant Notes completing the relevant Conversion Shares Settlement Notice or its nominee in accordance with the instructions given in such Conversion Shares Settlement Notice on the applicable Settlement Date.
- (ix) If a Conversion Shares Settlement Notice and the relevant Notes, if applicable, are not delivered to the Conversion Shares Depository on or before the Notice Cut-off Date, then the Conversion Shares Depository shall continue to hold the relevant Conversion Shares (or Conversion Share component, if any, of any Conversion Shares Offer Consideration) until a Conversion Shares Settlement Notice (and the relevant Notes, if applicable) is so delivered. However, the relevant Notes shall be cancelled on the Final Cancellation Date and any Holder

delivering a Conversion Shares Settlement Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the relevant Conversion Shares (or the relevant Conversion Shares component, if any, of any Conversion Shares Offer Consideration) satisfactory to the Conversion Shares Depositary in its sole and absolute discretion in order to receive delivery of such Conversion Shares (or Conversion Share component of any Conversion Shares Offer Consideration).

The Issuer shall have no liability to any Holder for any loss resulting from such Holder not receiving any Conversion Shares (or Conversion Share component of any Conversion Shares Offer Consideration) or from any delay in the receipt thereof, in each case as a result of such holder failing to duly submit a Conversion Shares Settlement Notice and the relevant Notes, if applicable, on a timely basis or at all.

(f) *Trustee not responsible for Conversion Shares or Conversion Shares Depositary*

The Trustee shall not be responsible or liable for implementing or monitoring any Conversion Shares Offer, nor for monitoring or enforcing the obligations of the Conversion Shares Depositary in respect thereof. Following Automatic Conversion and delivery of the Conversion Shares to the Conversion Shares Depositary, Holders must look to the Conversion Shares Depositary (or such other recipient of the Conversion Shares, as set out above) for any Conversion Shares or Conversion Shares Offer Consideration due to them at the relevant time.

10. **ADJUSTMENTS TO THE CONVERSION PRICE**

(a) *Adjustments to the Conversion Price*

Upon the occurrence of any of the events set out below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the ordinary shares of the Issuer, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of ordinary shares of the Issuer in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of ordinary shares of the Issuer in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any ordinary shares credited as fully paid to the Issuer's shareholders as a class by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such ordinary shares are or are to be issued instead of the whole or part of a Cash Dividend which the Issuer's shareholders would or could otherwise have elected to receive, (2) where the Issuer's shareholders may elect to receive a Cash Dividend in lieu of such ordinary shares or (3) where any such ordinary shares are or are expressed to be issued in lieu of a dividend

(whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to the Issuer's shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of ordinary shares of the Issuer in issue immediately before such issue; and

B is the aggregate number of ordinary shares of the Issuer in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such ordinary shares.

- (iii) If and whenever the Issuer shall issue any ordinary shares to all or substantially all of the Issuer's shareholders as a class by way of rights at a price per ordinary share which is less than 95 per cent. of the Current Market Price per ordinary share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate number of ordinary shares of the Issuer in issue on the Effective Date;

B is the aggregate number of ordinary shares of the Issuer that the aggregate consideration (if any) receivable for the ordinary shares issued by way of rights would purchase at such Current Market Price per ordinary share on the Effective Date; and

C is the number of ordinary shares to be issued.

Such adjustment shall become effective on the Effective Date.

For the purpose of any calculation of the consideration receivable or price pursuant to this paragraph (iii), the following provisions shall apply:

- (1) the aggregate consideration receivable or price for ordinary shares issued for cash shall be the amount of such cash;
- (2) if the consideration or price determined pursuant to (1) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date;
- (3) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant ordinary shares or otherwise in connection therewith;

- (4) the consideration or price shall be determined as provided in (1)-(3) above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity; and
 - (5) references herein to "cash" shall be construed as cash consideration within the meaning of Section 583(3) of the Companies Act.
- (iv) If and whenever the Issuer shall pay any Extraordinary Dividend to shareholders of the Issuer as a class, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one ordinary share on the Effective Date; and
- B is the portion of the aggregate Extraordinary Dividend attributable to one ordinary share, with such portion being determined by dividing the aggregate Extraordinary Dividend by the number of ordinary shares entitled to receive the relevant Extraordinary Dividend. If the Extraordinary Dividend shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date.

Such adjustment shall become effective on the Effective Date.

Notwithstanding the foregoing provisions:

- (A) No adjustment to the Conversion Price will be made:
 - (1) as a result of the payment of any Cash Dividend (other than an Extraordinary Dividend);
 - (2) to the extent ordinary shares or other securities (including rights, warrants or options in relation to ordinary shares and other securities) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, directors or employees or former directors or employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person in any such case pursuant to any employee share or option scheme or pursuant to any divided reinvestment plan or similar plan or scheme;
 - (3) if an increase in the Conversion Price would result from such adjustment, except in case of a consolidation of the ordinary shares; or
 - (4) if it would result in the Conversion Price being reduced below the par value of the ordinary shares;
- (B) where the events or circumstances giving rise to any adjustment pursuant to this section have already resulted or will result in an adjustment to the Conversion Price or where the events or

circumstances giving rise to any adjustment arise by virtue of any other events or circumstances that have already given or will give rise to an adjustment to the Conversion Price or where more than one event that gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the then prevailing Regulatory Capital Requirements, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result;

- (C) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once;
- (D) for the avoidance of doubt, the issue of ordinary shares following an Automatic Conversion or upon any conversion or exchange or the exercise of any other options, warrants or other rights shall not result in an adjustment to the Conversion Price;
- (E) in respect of any adjustment pursuant to paragraphs (i) to (iii) above, such adjustment shall be made only up to the extent it does not result in a Conversion Price that, if it were to be applied for the purposes of any Automatic Conversion at the time of such adjustment, would result in a number of Conversion Shares being required to be issued which represents a greater proportion of the total number of ordinary shares of the Issuer which are in issue than would be the case had the adjustment not been made (and had the corporate event not occurred); and
- (F) in respect of any adjustment pursuant to paragraph (iv) above, such adjustment shall be made only up to the extent it does not result in a Conversion Price that, if it were to be applied for the purposes of any Automatic Conversion at the time of such adjustment, would result in the issue of an additional number of Conversion Shares having a value that is greater than the value of the aggregate Extraordinary Dividend which would be attributable to the ordinary shares underlying the Notes had such ordinary shares been in issue.

(b) *No Retroactive Adjustments*

The Issuer shall not issue any additional Conversion Shares if the Automatic Conversion occurs after the record date in respect of any consolidation, reclassification or subdivision as is mentioned in Condition 10(a)(i), or after the record date or other due date for the establishment of entitlement for any such issue as is mentioned in Condition 10(a)(ii), but before the relevant adjustment to the Conversion Price becomes effective under such section.

(c) *Decision of an Independent Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to such Conversion Price, and following consultation between the Issuer and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect thereof shall be conclusive and binding on the Issuer, the Trustee and the Holders, save in the case of manifest error.

(d) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment to the Conversion Price pursuant to this Condition 10, if the resultant Conversion Price is a number with more decimal places than the initial Conversion Price, that number shall be rounded to the same number of decimal places as the initial Conversion Price. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to the Trustee and to the Holders in accordance with Condition 15 promptly after the determination thereof.

(e) *Qualifying Takeover Event*

Within 10 Business Days following the occurrence of a Takeover Event, the Issuer shall give notice thereof to the Trustee and to the Holders by means of a Takeover Event Notice. If the Takeover Event is not a Qualifying Takeover Event, the Takeover Event Notice addressed to the Trustee shall include a certification signed by two Authorised Signatories certifying that a Takeover Event that is not a Qualifying Takeover Event has occurred, in which event such certification shall be treated and accepted by the Trustee and the Noteholders as correct, conclusive and sufficient evidence thereof.

If the Takeover Event is a Qualifying Takeover Event, the Notes shall, where the Conversion Date falls on or after the QTE Effective Date, be converted into or exchanged for Approved Entity Shares of the Approved Entity, *mutatis mutandis* as provided in Condition 9 above, at a Conversion Price that shall initially be the New Conversion Price, which may be higher or lower than the Conversion Price and references herein to "Conversion Shares" shall be deemed to be references to "Approved Entity Shares".

Such conversion shall be effected by the delivery by the Issuer of such number of ordinary shares in the Issuer to the Approved Entity as is determined in accordance with Condition 9 and such delivery shall irrevocably discharge and satisfy all of the Issuer's obligations in respect of the Notes in question (but shall be without prejudice to the Approved Entity's obligations to deliver Approved Entity Shares).

The New Conversion Price shall be subject to adjustment in the circumstances provided for in Condition 10(a) above (if necessary with such modifications and amendments as an Independent Financial Adviser acting in good faith shall determine to be appropriate and references to "ordinary shares" shall be read as references to "Approved Entity Shares"), and the Issuer shall give notice to the Trustee and to the Holders in accordance with Condition 15 of the New Conversion Price and of any such modifications and amendments thereafter.

(i) In the case of a Qualifying Takeover Event:

- (A) the Issuer shall, to the extent permitted by applicable law and regulation, on or prior to the QTE Effective Date, enter into such agreements and arrangements (which may include a supplemental trust deed and amendments and modifications to these Conditions and the Trust Deed) as may be required to ensure that, with effect from the QTE Effective Date, the Notes shall be convertible into, or exchangeable for, Approved Entity Shares, *mutatis mutandis* in accordance with, and subject to, the provisions in Condition 9 (as may be so supplemented, amended or modified), at the New Conversion Price and any references to the Conversion Price shall be construed as references to the New Conversion Price; and

- (B) upon the occurrence of a Trigger Event where the Conversion Date falls on or after the QTE Effective Date, the Issuer shall procure (to the extent within its control) the issue of the relevant number of Approved Entity Shares *mutatis mutandis* in the manner provided in Condition 9 above, as may be amended or modified as provided above.

The Trustee shall be obliged (at the expense of the Issuer) to concur with the Issuer in making any such amendments and modifications to the Trust Deed and these Conditions, and to execute any such deeds supplemental to the Trust Deed, provided that the Trustee shall not be bound to do so if any such amendments, modifications or deeds would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes.

- (ii) In the case of a Takeover Event that is not a Qualifying Takeover Event (including if that is because the Acquirer is a Governmental Entity or because on the Conversion Date the Acquirer's Shares are not Approved Entity Shares), with effect from the occurrence of the Takeover Event (or the date on which the Acquirer's Shares cease to be Approved Entity Shares) and unless a Conversion Date shall have occurred prior to the date of such Takeover Event (or the date on which the Acquirer's Shares cease to be Approved Entity Shares), outstanding Notes shall not be subject to Automatic Conversion into shares of the Acquirer at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) (or where the Conversion Date occurs on or after the date of such Takeover Event) the Notes shall be converted into ordinary shares in the Issuer in accordance with Condition 9(a) as if no Takeover Event had occurred.

(f) *Covenants*

Whilst any Note remains outstanding, the Issuer shall (if and to the extent permitted by the Regulatory Capital Requirements from time to time and only to the extent that such covenant would not cause a Regulatory Event to occur) in the event of a Newco Scheme, save with the approval of an Extraordinary Resolution, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to these Conditions and the Trust Deed as are necessary to ensure that the Notes may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed. The Trustee shall (at the expense of the Issuer and provided that the Trustee is satisfied that the effect of such amendments will be only that the Notes may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions) be bound to concur in effecting such amendments, provided that the Trustee shall not be bound to concur if to do so would, in the opinion of the Trustee, (i) expose the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) change, increase or add to the obligations or duties of the Trustee or (iii) remove or amend any protection or indemnity afforded to, or any other provisions in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes.

11. TAXATION

(a) *Payment without withholding*

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by

or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts in respect of any interest on the Notes ("**Additional Amounts**"), but not, for the avoidance of doubt, in respect of the payment of any principal in respect of the Notes, as may be necessary in order that the net amounts in respect of any interest on the Notes received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of interest on the Notes in the absence of the withholding or deduction, except that no Additional Amounts shall be payable in relation to any payment in respect of any Note:

- (i) to or on behalf of a Holder, or a beneficial owner of the relevant Notes, which is liable to such Taxes in respect of such Note by reason of its having some connection with the Relevant Jurisdiction other than the mere holding or ownership of the Note; or
- (ii) where (in the case of a payment of interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to such Additional Amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days; or
- (iii) where the Holder of the relevant Notes failed to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction of such Holder, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the Relevant Jurisdiction as a condition to relief or exemption from such taxes.

For the avoidance of doubt, any amounts to be paid by the Issuer on the Notes will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (or any law implementing such an intergovernmental agreement) (a "**FATCA Withholding Tax**"), and the Issuer will not be required to pay any Additional Amounts on account of any FATCA Withholding Tax.

(b) *Additional Amounts*

Any reference in these Conditions to any interest in respect of the Notes shall be deemed also to include any Additional Amounts which is, were or would be payable under this Condition 11.

The mandatory restrictions on payments of Interest Amounts in Condition 6(a) shall apply to any Additional Amounts *mutatis mutandis*.

12. **PRESCRIPTION**

Notes will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes, subject to the provisions of Condition 7.

13. **NON-PAYMENT WHEN DUE AND WINDING-UP EVENT**

(a) *Proceedings in the event of non-payment or breach of Performance Obligations*

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution,

shall (subject to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction), without further notice:

- (i) *Non-payment*: in the event that any principal on the Notes has not been paid within 14 days from the due date for payment, institute proceedings in a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) for the winding-up of the Issuer and/or prove and/or claim in a Winding-Up, provided that the Issuer shall not be in default if it satisfies the Trustee during the 14 day period that such sums were not paid in order to comply with any mandatory law, regulation or order of any court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, the Issuer will not be in default if it acts on the advice given to it during such period by independent legal advisers acceptable to the Trustee. No interest will be due and payable if such interest has been cancelled (in whole or in part) pursuant to Condition 4(a), 6(a) or 9. Accordingly, no default in payment under the Notes will have occurred or be deemed to have occurred in such circumstances; or
- (ii) *Limited remedies for breach of Performance Obligations*: institute such proceedings against the Issuer as it may think fit to enforce any term, obligation or condition binding on the Issuer under the Notes or the terms of the Trust Deed (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest) (a "**Performance Obligation**"); provided always that the Trustee (acting on behalf of the Noteholders but not the Trustee acting in its personal capacity under the Trust Deed) and the Noteholders shall not enforce, and shall not be entitled to enforce or otherwise claim against the Issuer, any judgment or other award given in such proceedings that requires the payment of money by the Issuer, whether by way of damages or otherwise (a "**Monetary Judgment**"), except by proving and/or claiming such Monetary Judgment in a Winding-Up.

Nothing in this Condition 13(a) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

(b) *Winding-Up Event*

If a Winding-Up Event occurs before the occurrence of a Trigger Event, the Trustee at its discretion may and, if so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction), subject to Condition 5(a), declare the Notes to be due and repayable immediately (and the Notes shall thereby become so due and repayable with such claim as set out in Condition 5(a)).

(c) *Right of Noteholders*

No Noteholder shall be entitled to proceed directly against the Issuer or institute any of the proceedings referred to in this Condition 13 or to prove and/or claim in a Winding-Up, except that, if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so or, being able to prove in such Winding-Up, fails to do so, in each case within a reasonable period and in each such case such failure shall be continuing, then any such Noteholder may itself institute such proceedings and/or prove and/or claim in such Winding-Up to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so in respect of the Notes.

(d) *Extent of Noteholder's remedy*

No remedy against the Issuer other than the institution of the proceedings referred to in this Condition 13 or proving and/or claiming in a Winding-Up, shall be available to the

Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or the Trust Deed.

14. **REPLACEMENT OF CERTIFICATES**

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer and/or the Registrar may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. **NOTICES**

All notices regarding the Notes shall be valid if sent by post to the Noteholders at their respective addresses in the Register and, if and for so long as the Notes are listed on the Irish Stock Exchange or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

16. **MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVERS**

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting of Noteholders for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which is to deal with certain proposals (including any proposal to change any Interest Payment Date or any optional redemption date, to reduce the amount of interest payable in respect of the Notes, to reduce the principal amount of the Notes, to alter the method of calculating of any interest in respect of the Notes, to change the currency of payments under the Notes, to modify the provisions of Conditions 3, 4 or 5, to modify the provisions of Condition 9 and/or Condition 10 (other than pursuant to or as a result of any amendment to these Conditions and the Trust Deed made pursuant to and in accordance with Condition 10(e) or 10(f)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**"), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the aggregate principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting and whether or not they voted on the resolution.

In addition, a resolution in writing signed by or on behalf of the holders of at least 75 per cent. in aggregate principal amount of the outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification, authorisation, waiver*

Except where the Trustee is bound pursuant to Conditions 10(e)(i) and 10(f) to give effect to the amendments described therein, the Trustee may agree (other than in respect of a

Reserved Matter), without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest error.

(c) *Supervisory Permission*

These Conditions shall only be capable of modification or waiver, if the Issuer has obtained the relevant Supervisory Permission or if the Issuer has notified the Competent Authority of such modification or waiver, to the extent then required under the prevailing Regulatory Capital Requirements.

(d) *Trustee to have regard to interests of Noteholders as a class*

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

(e) *Notification to the Noteholders*

Any modification, abrogation, waiver or authorisation referred to in this Condition 16 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

17. **RIGHTS OF THE TRUSTEE**

(a) *Indemnification and protection of the Trustee*

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the Noteholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

(b) *Trustee Contracting with the Issuer*

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or

guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

(c) *Reliance by Trustee on reports, confirmations, certificates and advice*

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institutions or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

(d) *Mandatory modifications*

When implementing any modification pursuant to Condition 10(e)(i), the Trustee shall not consider the interests of the Noteholders or any other person. The Trustee shall not be liable to the Noteholders or any other person for so acting or for any losses incurred by any person by reason thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person and/or is or may be a Reserved Matter.

(e) *Trustee's remuneration, liability etc*

The provisions of Conditions 4 and 5 apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Conditions 4, 5, 7 or 13 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligations in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest or other amounts by reason of Condition 4(a) or Condition 6(a), Automatic

Conversion pursuant to Condition 9 or any cancellation of the Notes or write down of any claims in respect thereof following the occurrence of a Takeover Event that is not a Qualifying Takeover Event pursuant to Condition 10(e)(ii). Furthermore, the Trustee shall not be responsible or liable for any calculation or the verification of any calculation in connection with any of the foregoing.

18. **FURTHER ISSUES**

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the issue price thereof) so that the same shall be consolidated and form a single series with the Notes. Any further securities which are to form a single series with the Notes constituted by the Trust Deed or any supplemental deed shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

19. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

(a) *Governing law*

The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with the Trust Deed and the Notes are governed by English law.

(b) *Jurisdiction of English courts*

The parties to the Trust Deed have (i) agreed that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that they will not argue that any other courts are more appropriate or convenient.

20. **RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. **DEFINITIONS**

(a) *Definitions*

In these Conditions:

"**Accrued Interest**" means, with respect to a date fixed for redemption in accordance with Condition 8, any interest accrued but unpaid on the Notes from (and including) the Interest Payment Date most recently preceding such date fixed for redemption to (but excluding) such date fixed for redemption and which is unpaid, but excluding any interest which has been cancelled in accordance with Condition 4(a), Condition 6(a) or Condition 9.

"**Acquirer**" means the person that controls the Issuer following a Takeover Event. For the purposes of this definition, "control" means the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer or the right to appoint or remove a majority of the board of directors of the Issuer.

"**Additional Amounts**" has the meaning given to it in Condition 11(a).

"**Additional Tier 1 Capital**" has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

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

"**Agent**" means the Registrar, the Agent Bank and each of the other agents appointed pursuant to the Agency Agreement.

"**Agent Bank**" means Citibank N.A., London branch and any successor agent bank appointed from time to time in connection with the Notes.

"**Approved Entity**" means a body corporate which, on the occurrence of the Takeover Event, has in issue Approved Entity Shares.

"**Approved Entity Shares**" means ordinary shares in the capital of a body corporate that constitutes equity share capital or the equivalent (or depository or other receipts representing the same) which are listed and admitted to trading on a Recognised Stock Exchange provided that ordinary shares shall not be Approved Entity Shares if the conversion, or possible conversion, of the Notes into those ordinary shares would have an effect of the kind referred to in either of paragraphs (ii) or (iii) of Condition 8(d) on the Issuer (an "**Adverse Tax Effect**") and such Adverse Tax Effect arises as a consequence of the fact that the Notes would not be "hybrid capital instruments" for the purposes of section 475C of the Corporation Tax Act 2009; and ordinary shares shall cease to be Approved Entity Shares if such ordinary shares are initially Approved Entity Shares, but subsequently would have an Adverse Tax Effect on or before the Conversion Date.

"**Authorised Denomination**" has the meaning given to it in Condition 1.

"**Authorised Signatory**" has the meaning given to it in the Trust Deed.

"**Automatic Conversion**" means the irrevocable and automatic release of all of the Issuer's obligations under the Notes in consideration of the Issuer's issuance of the Conversion Shares at the Conversion Price to the Conversion Shares Depository (on behalf of the Holders) or to the relevant recipient, in accordance with these Conditions and "**convert**" and "**converted**" shall be construed accordingly.

"**Automatic Conversion Notice**" means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 15 specifying (i) that a Trigger Event has occurred, (ii) the Conversion Date or expected Conversion Date, (iii) the Conversion Price, (iv) that the Issuer has the option, at its sole and absolute discretion, to elect that a Conversion Shares Offer be conducted and that the Issuer will issue a Conversion Shares Offer Notice in accordance with Condition 15 within 10 Business Days following the Conversion Date notifying Holders of the Issuer's election and (v) that the Notes shall remain in existence for the sole purpose of evidencing the Holder's right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depository, and that the Notes may continue to be transferable until the Suspension Date, which shall be specified in the Conversion Shares Offer Notice.

"**Benchmark Gilt**" has the meaning given to it in Condition 6.2(d)(A).

"**BRRD**" means European Union directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms of 15 May 2014, as amended or replaced from time to time.

"**Business Day**" has the meaning given to it in Condition 6.2(d).

"**Calculation Amount**" means £1,000 in principal amount of Notes.

"**Cancellation Date**" means (i) with respect to any Note for which a Conversion Shares Settlement Notice is received by the Conversion Shares Depository on or before the Notice Cut-off Date, the applicable Settlement Date and (ii) with respect to any Note for which a Conversion Shares Settlement Notice is not received by the Conversion Shares Depository on or before the Notice Cut-off Date, the Final Cancellation Date.

"**Cash Dividend**" means any dividend or distribution in respect of the ordinary shares to shareholders of the Issuer which is to be paid or made in cash (in whatever currency), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to shareholders upon or in connection with a reduction of capital.

"**Certificate**" has the meaning given to it in Condition 1.

"**Clearing Systems**" means Clearstream Banking, S.A. and Euroclear Bank S.A./N.V.

"**Code**" has the meaning given to it in Condition 11.

"**Common Equity Tier 1**" means, at any time, the sum, expressed in pounds sterling, of all amounts that constitute common equity tier 1 capital of the Group at such time, less any deductions from common equity tier 1 capital of the Group required to be made at such time, in each case as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements applicable to the Group at such time, but without applying the transitional provisions set out in Part Ten of the CRD IV Regulation (which calculation shall be binding on the Trustee and the Holders). For the purposes of this definition, the term "common equity tier 1 capital" shall have the meaning assigned to such term (or any successor term) in accordance with the Regulatory Capital Requirements then applicable to the Group.

"**Common Equity Tier 1 Capital Ratio**" means, at any time, the ratio of Common Equity Tier 1 of the Group at such time to the Risk Weighted Assets of the Group at such time,

expressed as a percentage and on the basis that all measures used in such calculation shall be calculated without applying any transitional provisions set out in the Regulatory Capital Requirements, including as at the date hereof, Part Ten of the CRD IV Regulation.

"**Companies Act**" means the Companies Act 2006.

"**Competent Authority**" means the United Kingdom Prudential Regulation Authority or any successor or replacement thereto or such other authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction) having primary responsibility for the prudential oversight and supervision of the Issuer and/or the Group.

"**Conditions**" means these terms and conditions of the Notes, as amended from time to time.

"**Conversion Date**" means the date on which the Automatic Conversion shall take place, or has taken place, as applicable.

"**Conversion Price**" means £1.19 per Conversion Share, subject to adjustment in accordance with Condition 10.

"**Conversion Shares**" means the ordinary shares of the Issuer currently with a nominal value of £0.10 each to be issued to the Conversion Shares Depositary (or to the relevant recipient in accordance with these Conditions) following an Automatic Conversion, which ordinary shares shall be in such number as is determined by dividing the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date by the Conversion Price on the Conversion Date rounded down, if necessary, to the nearest whole number of ordinary shares.

"**Conversion Shares Depositary**" means a financial institution, trust company, depositary entity, nominee entity or similar entity (which in each such case is wholly independent of the Issuer) to be appointed by the Issuer on or prior to any date when a function ascribed to the Conversion Shares Depositary in these Conditions is required to be performed, to perform such functions and which as a condition of such appointment, will be required to undertake, for the benefit of the Holders, to hold the Conversion Shares (and any Conversion Shares Offer Consideration) on behalf of such Holders in one or more segregated accounts unless otherwise required for the purposes of the Conversion Shares Offer and, in any event, on terms consistent with these Conditions.

"**Conversion Shares Offer**" has the meaning given to it in Condition 9(d).

"**Conversion Shares Offer Agent**" means the agent(s), if any, to be appointed on behalf of the Conversion Shares Depositary by the Issuer, in its sole and absolute discretion, to act as placement or other agent of the Conversion Shares Depositary to facilitate a Conversion Shares Offer.

"**Conversion Shares Offer Consideration**" means in respect of each Note (i) if all of the Conversion Shares are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of the Conversion Shares attributable to such Note, (ii) if some but not all of the Conversion Shares are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of the Conversion Shares attributable to such Note and (y) the *pro rata* share of the Conversion Shares not sold pursuant to the Conversion Shares Offer attributable to such Note rounded down to the nearest whole number of Conversion Shares, and (iii) if no Conversion Shares are sold in a Conversion Shares Offer, the relevant Conversion Shares attributable to such Note rounded down to the nearest whole number of Conversion Shares, subject in the case of (i) and (ii)(x) above to deduction from any such cash proceeds of an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the transfer of any interest in the Conversion Shares to the Conversion Shares Depositary as a consequence of the Conversion Shares Offer.

"Conversion Shares Offer Notice" means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 15 specifying (i) whether or not the Issuer has elected that a Conversion Shares Offer be made and, if so, the Conversion Shares Offer Period, (ii) the Suspension Date and (iii) details of the Conversion Shares Depositary or, if the Issuer has been unable to appoint a Conversion Shares Depositary, such other arrangements for the issuance and/or delivery of the Conversion Shares or the Conversion Shares Offer Consideration, as applicable, to the Holders as it shall consider reasonable in the circumstances.

"Conversion Shares Offer Period" means the period during which the Conversion Shares Offer may occur, which period shall end no later than 40 Business Days after the delivery of the Conversion Shares Offer Notice.

"Conversion Shares Settlement Notice" means a written notice to be delivered by a Holder to the Conversion Shares Depositary (or to the relevant recipient in accordance with these Conditions), with a copy to the Trustee, no earlier than the Suspension Date containing the following information: (i) the name of the Holder, (ii) the aggregate amount of the Authorised Denomination of the Notes held by such Holder on the date of such notice, (iii) the name to be entered in the Issuer's share register, (iv) the details of the CREST or other clearing system account or, if the Conversion Shares are not a participating security in CREST or another clearing system, the address to which the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) and/or cash (if not expected to be delivered through the Clearing Systems) should be delivered and (v) such other details as may be required by the Conversion Shares Depositary.

"Conversion Shares Settlement Request Notice" means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 15 on the Suspension Date requesting that Holders complete a Conversion Shares Settlement Notice and specifying (i) the Notice Cut-off Date and (ii) the Final Cancellation Date.

"CRD IV Directive" means Directive (2013/36/EU) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time.

"CRD IV Regulation" means Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time.

"Current Market Price" means, in respect of an ordinary share at a particular date, the average of the daily Volume Weighted Average Price of an ordinary share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that, if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Cash Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Cash Dividend (or cum- any other entitlement), then:

- (i) if the ordinary shares to be issued do not rank for the Cash Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the ordinary shares shall have been based on a price cum-Cash Dividend (or cum- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or

- (ii) if the ordinary shares to be issued do rank for the Cash Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the ordinary shares shall have been based on a price ex-Cash Dividend (or ex- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof increased by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Cash Dividend (or cum- any other entitlement) in respect of a Cash Dividend (or other entitlement) which has been declared or announced but the ordinary shares to be issued do not rank for that Cash Dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit, and provided further that, if the Volume Weighted Average Price of an ordinary share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period, the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

"**Day-Count Fraction**" shall be calculated on the basis of: (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by; (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by two.

"**dealing day**" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which ordinary shares may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

"**Dispute**" has the meaning given to it in Condition 19(b).

"**Distributable Items**" means, to the extent such definition is not amended or otherwise modified in the Regulatory Capital Requirements after the Issue Date (in which case such amended or modified definition shall apply), in relation to an Interest Amount (or part thereof):

- (i) the amount of the profits of the Issuer as at the end of the financial year immediately preceding the relevant Interest Payment Date plus any profits brought forward and reserves available for that purpose before distributions to holders of other own funds instruments of the Issuer (other than Tier 2 Capital instruments); less
- (ii) any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the Issuer's articles of association and sums placed to non- distributable reserves in accordance with the Companies Act or the articles of association of the Issuer,

those profits, losses and reserves being determined on the basis of the individual accounts of the Issuer and not on the basis of its consolidated accounts.

"EEA Regulated Market" means a market as defined by Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on Markets in Financial Instruments, as the same may be amended from time to time.

"Effective Date" means, for the purposes of Condition 10(a)(iii), the first date on which the ordinary shares are traded ex-rights, on the Relevant Stock Exchange and, for the purposes of Condition 10(a)(iv), the first date on which the ordinary shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

"Exempt Newco Scheme" means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on the Relevant Stock Exchange or (ii) admitted to listing on such other Recognised Stock Exchange as the Issuer or Newco may determine.

"Existing Shareholders" has the meaning given to it in the definition of Newco Scheme.

"Extraordinary Dividend" means any Cash Dividend that is expressly declared by the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to shareholders as a class or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

"Extraordinary Resolution" has the meaning given to it in the Trust Deed.

"FATCA Withholding Tax" has the meaning given to it in Condition 11(a).

"Final Cancellation Date" means the date on which the Notes in relation to which no Conversion Shares Settlement Notice has been received by the Conversion Shares Depositary on or before the Notice Cut-off Date shall be cancelled, which date may be up to 12 Business Days following the Notice Cut-off Date.

"First Reset Date" has the meaning given to it in Condition 6(b).

"Governmental Entity" means (i) the United Kingdom Government, (ii) an agency of the United Kingdom Government or (iii) a person or entity (other than a body corporate) controlled by the United Kingdom Government or any such agency referred to in (ii). If the Issuer is then organised in another jurisdiction, the references to "United Kingdom Government" shall be read as references to the government of such other jurisdiction.

"Group" means the Issuer and each entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Regulatory Capital Requirements) of which the Issuer is part from time to time.

"Independent Financial Adviser" means an independent financial institution of international repute appointed by the Issuer at its own expense.

"Initial Interest Rate" has the meaning given to it in Condition 6(b)(i).

"Interest Amount" means the amount of interest payable on each Note on an Interest Payment Date, subject to Condition 6.

"Interest Payment Date" has the meaning given to it in Condition 6(b).

"Interest Period" has the meaning given to it in Condition 6(b).

"Interest Rate" means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be.

"Issue Date" means 13 March 2019.

"Issuer" has the meaning given to it in the preamble to these Conditions.

"LSE" means the London Stock Exchange plc.

"Margin" has the meaning given to it in Condition 6(d).

"Maximum Distributable Amount" has the meaning given to it in Condition 6(a).

The "New Conversion Condition" shall be satisfied if (a) by not later than seven Business Days following the completion of a Takeover Event where the Acquirer is an Approved Entity, there shall be arrangements in place with the Trustee for the benefit of the Holders for the Approved Entity to provide for issuance of Approved Entity Shares following an Automatic Conversion of the Notes on terms *mutatis mutandis* identical to Condition 9(a) and 9(b) and (b) the Issuer, in its sole and absolute discretion has determined that such arrangements are in the best interest of the Issuer and its shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Holders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body).

"New Conversion Price" means the amount determined in accordance with the following formula, which shall apply from the QTE Effective Date:

$$\text{NCP} = \text{ECP} * (\text{VWAPAES} / \text{VWAPOS})$$

where:

"NCP" is the New Conversion Price.

"ECP" is the Conversion Price in effect on the dealing day immediately prior to the QTE Effective Date.

"VWAPAES" means the average of the Volume Weighted Average Price of the Approved Entity Shares (translated, if necessary, into sterling at the Prevailing Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day prior to the closing date of the Takeover Event (and where references in the definition of "Volume Weighted Average Price" to "ordinary share" shall be construed as a reference to the Approved Entity Shares and in the definition of "dealing day," references to the "Relevant Stock Exchange" shall be to the relevant Recognised Stock Exchange on which the Approved Entity Shares are then listed, admitted to trading or quoted or accepted for dealing).

"VWAPOS" is the average of the Volume Weighted Average Price of the ordinary shares (translated, if necessary, into sterling at the Prevailing Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day immediately prior to the closing date of the Takeover Event.

"Newco" has the meaning given to it in the definition of Newco Scheme.

"Newco Scheme" means a scheme of arrangement or analogous proceeding ("Scheme of Arrangement") which effects the interposition of a limited liability company ("Newco") between the shareholders of the Issuer immediately prior to the Scheme of Arrangement (the "Existing Shareholders") and the Issuer; provided that: (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of

the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

"**Notes**" has the meaning given to it in the preamble to these Conditions.

"**Noteholder**" or "**Holder**" has the meaning given to it in Condition 1.

"**Notice Cut-off Date**" means the date specified as such in the Conversion Shares Settlement Request Notice, which date shall be at least 40 Business Days following the Suspension Date.

"**Notional Preference Share**" has the meaning given to it in Condition 5(a).

"**ordinary shares**" means (a) prior to the QTE Effective Date, fully paid ordinary shares in the capital of the Issuer currently with a nominal value of £0.10 each and (b) on and after the QTE Effective Date, the relevant Approved Entity Shares.

"**own funds**" has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

"**own funds instruments**" has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

"**Parity Obligations**" means any obligations of the Issuer (including any guarantee or other support obligations) which rank, or are expressed to rank, *pari passu* with the Issuer's obligations in respect of the Notes on a winding-up of the Issuer prior to a Trigger Event (and, for the avoidance of doubt, shall include any other Additional Tier 1 Capital securities of the Issuer (if any) from time to time outstanding).

"**Paying Agent**" means each entity appointed as a paying agent from time to time pursuant to the Agency Agreement.

"**payment business day**" has the meaning given to it in Condition 7(d).

a "**person**" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) or other legal entity.

"**Performance Obligation**" has the meaning given to it in Condition 13(b).

"**Prevailing Rate**" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon, London time, on that date as appearing on or derived from the relevant page on Bloomberg (or such other information service provider that displays the relevant information) or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon, London time, on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the relevant page on Bloomberg (or such other information service provider that displays the relevant information), the rate determined in such other manner as an Independent Financial Adviser shall in good faith prescribe.

"**Principal Paying Agent**" means Citibank N.A., London branch and any successor principal paying agent appointed from time to time in connection with the Notes.

"**QTE Effective Date**" means the date with effect from which the New Conversion Condition shall have been satisfied.

"**Qualifying Takeover Event**" means a Takeover Event where: (i) the Acquirer is an Approved Entity; and (ii) the New Conversion Condition is satisfied.

"Recognised Stock Exchange" means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in the United Kingdom or another OECD member state.

"Record Date" has the meaning given to it in Condition 7(f).

"Register" has the meaning given to it in Condition 1.

"Registrar" means Citigroup Global Markets Europe AG or such other registrar appointed by the Issuer from time to time in respect of the Notes in accordance with these Conditions.

"Regulatory Capital Requirements" means any requirements contained in the laws, regulations, requirements, standards, guidelines and policies of the Competent Authority, any other national and/or European authority, then in effect in the United Kingdom (or in such other jurisdiction in which the Issuer may be incorporated or domiciled) relating to capital adequacy and applicable to the Issuer and/or the Group including, as at the date hereof, the CRD IV Directive, the CRD IV Regulation, the BRRD and related technical standards.

"Regulatory Event" has the meaning given to it in Condition 8(c).

"Regulatory Preconditions" means, in relation to any redemption of the Notes, to the extent required by prevailing Regulatory Capital Requirements:

- (i)
 - (A) the Group having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Group; or
 - (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and
- (ii) in the case of a redemption pursuant to Condition 6(c) or 6(d) occurring prior to the fifth anniversary of the Issue Date only:
 - (A) in the case of a redemption due to the occurrence of a Regulatory Event, the Competent Authority considering such change to be sufficiently certain and the Issuer having demonstrated to the satisfaction of the Competent Authority that such Regulatory Event was not reasonably foreseeable as at the Issue Date; or
 - (B) in the case of a redemption due to the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Competent Authority that such Tax Event is material and was not reasonably foreseeable as at the Issue Date,

provided that if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i) and (ii) of this definition, the Issuer having complied with such other pre-condition(s) in addition to or in lieu of the above pre-conditions.

The granting of Supervisory Permission in respect of such redemption shall be treated (without liability) by the Issuer, the Trustee, the Holders and all other interested parties as conclusive and sufficient evidence of the satisfaction of these pre-conditions.

"Relevant Currency" means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination the LSE is not the Relevant Stock Exchange, the

currency in which the ordinary shares are quoted or dealt in on the Relevant Stock Exchange at such time.

"Relevant Date" means (A) in respect of any payment other than a sum to be paid by the Issuer in a Winding-Up of the Issuer, whichever is the later of: (1) the date on which the payment in question first becomes due; and (2) if the full amount payable has not been received by the Registrar or another Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders and (B) in respect of a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up (or, in the case of an administration, one day prior to the date on which any dividend is distributed).

"Relevant Jurisdiction" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and Interest Amounts on the Notes.

"Relevant Stock Exchange" means the LSE or, if at the relevant time the ordinary shares are not at that time listed and admitted to trading on the LSE, the principal stock exchange or securities market on which the ordinary shares are then listed, admitted to trading or quoted or accepted for dealing.

"Reserved Matter" has the meaning given to it in Condition 16(a).

"Reset Date" means the First Reset Date and each fifth anniversary date thereafter.

"Reset Determination Date" has the meaning given to it Condition 6(d)).

"Reset Interest Rate" has the meaning given to it in Condition 6(d).

"Reset Period" means the period from and including the First Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

"Reset Reference Bank Rate" has the meaning given to it in Condition 6(d).

"Reset Reference Banks" has the meaning given to it in Condition 6(d).

"Risk Weighted Assets" means, at any time, the aggregate amount, expressed in pounds sterling, of the total risk exposure amount of the Group at such time, as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements applicable to the Group at such time (which calculation shall be binding on the Trustee and the Holders). For the purposes of this definition, the term "risk weighted assets" means the risk weighted assets or total risk exposure amount, as calculated by the Issuer, in accordance with the prevailing Regulatory Capital Requirements applicable to the Group.

"Scheme of Arrangement" has the meaning given to it in the definition of Newco Scheme.

"Senior Creditors" means creditors of the Issuer: (a) who are unsubordinated creditors of the Issuer; (b) whose claims are, or are expressed to be, subordinated (whether only in the event of a winding-up of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer but not further or otherwise; or (c) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders in a winding-up occurring prior to the Trigger Event.

"Settlement Date" means (i) with respect to any Note in relation to which a Conversion Shares Settlement Notice is received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the later of (a) the date that is two Business Days after the end of the relevant Conversion Shares Offer Period and (b) the date that is two Business Days after the date on which such Conversion Shares Settlement Notice has been received by the Conversion Shares Depositary and (ii) with respect to any Note in relation to which a Conversion Shares Settlement Notice is not received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the date on which the Conversion Shares Depositary delivers the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable.

"shareholders" means the holders of ordinary shares.

"Solvency Condition" has the meaning given to it in Condition 4(a).

"£", "sterling" and "pounds sterling" are to the lawful currency for the time being of the United Kingdom.

"Subsidiary" has the meaning given to it in Section 1159 of the Companies Act.

"Supervisory Permission" means, in relation to any actions, such supervisory permission required therefor within prescribed periods from, the Competent Authority, or such waiver of the then prevailing Regulatory Capital Requirements from the Competent Authority, as is required under the then prevailing Regulatory Capital Requirements.

"Suspension Date" means, with respect to each Clearing System, the date specified in the Conversion Shares Offer Notice as the date on which such Clearing System shall suspend all clearance and settlement of transactions in the Notes in accordance with its rules and procedures, which date shall be no later than 38 Business Days after the delivery of the Conversion Shares Offer Notice to such Clearing System (and, if the Issuer elects that a Conversion Shares Offer be made, such date shall be at least two Business Days prior to the end of the relevant Conversion Shares Offer Period).

A **"Takeover Event"** shall occur if an offer is made to all (or as nearly as may be practicable all) shareholders (or all (or as nearly as may be practicable all) such shareholders other than the offeror and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme with regard to such acquisition and (such offer or scheme having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in any person and/or any associate of that person (as defined in Section 988(1) of the Companies Act), in each case, other than in the event of a Newco Scheme.

"Takeover Event Notice" means the notice to the Holders in accordance with Condition 15 notifying them that a Takeover Event has occurred and specifying: (1) the identity of the Acquirer; (2) whether the Takeover Event is a Qualifying Takeover Event or not; (3) in the case of a Qualifying Takeover Event, if determined at such time, the New Conversion Price; and (4) if applicable, the QTE Effective Date.

"Tax Event" has the meaning given to it in Condition 8(d).

"Taxes" has the meaning given to it in Condition 11(a).

"Tier 1 Capital" has the meaning given to it (or any successor such term) from time to time in the Regulatory Capital Requirements.

"Tier 2 Capital" has the meaning given to it (or any successor such term) from time to time in the Regulatory Capital Requirements.

"Transfer Agent" means Citibank N.A., London branch.

"Trigger Event" means the Common Equity Tier 1 Capital Ratio of the Group falls below 7.00 per cent.

"Trustee" means Citicorp Trustee Company Limited or such other trustee appointed by the Issuer from time to time in respect of the Notes in accordance with the Conditions and the Trust Deed.

"Trust Deed" has the meaning given to it in the preamble to these Conditions.

"Volume Weighted Average Price" means, in respect of an ordinary share (or an Approved Entity Share, as applicable) on any dealing day, the order book volume-weighted average price of an ordinary share (or Approved Entity Share, as applicable) published by or derived from the relevant Bloomberg page or such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an ordinary share (or an Approved Entity Share, as applicable) in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or determined as an Independent Financial Adviser might otherwise determine in good faith to be appropriate.

"Winding-Up" has the meaning given to it in Condition 5(a).

"Winding-Up Event" means with respect to the Notes, if:

- (i) a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer may be incorporated) makes an order for the winding-up of the Issuer which is not successfully appealed within 30 days of the making of such order, or the Issuer's shareholders adopt an effective resolution for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction, merger or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Holders and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);
- (ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

(b) *Construction of certain references*

In these Conditions, unless otherwise specified or unless the context otherwise requires:

- (i) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;
- (ii) references to any issue or offer or grant to shareholders "as a class" or "by way of rights" shall be taken to be references to an issue or offer or grant to all or substantially all shareholders, as the case may be, other than shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant;

- (iii) references to "ordinary share capital" has the meaning provided in Section 1119 of the Corporation Tax Act 2010 and "equity share capital" has the meaning provided in Section 548 of the Companies Act;
- (iv) references to the "issue" of Conversion Shares shall include the transfer and/or delivery of Conversion Shares by the Issuer or any of its Subsidiaries, whether newly issued and allotted or previously existing;
- (v) ordinary shares held by the Issuer or any of its Subsidiaries shall not be considered as or treated as "in issue";
- (vi) references to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment; and
- (vii) headings and sub-headings are for ease of reference only and shall not affect the construction of these Conditions.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes are represented by a Global Certificate that is registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depository for the Clearing Systems.

The Global Certificate contains provisions that modify the Conditions as they apply to the Notes evidenced by the Global Certificate, and a summary of certain of those provisions is set out below.

Exchange for Individual Certificates

Registration of title to Notes in a name other than that of Citivic Nominees Limited (or any replacement or successor nominee for the Clearing Systems) will be permitted only if (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 13 (*Non-Payment when due and Winding-Up Event*) occurs. The Issuer shall notify the registered holder of the Global Certificate of the occurrence of any of the events specified in (i) and (ii) as soon as practicable thereafter.

Whenever the Global Certificate is to be exchanged for Individual Certificates, such Individual Certificates shall be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any registered holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has either the office identified with its name in the Conditions of the Notes or any other office notified to any relevant parties pursuant to the Agency Agreement.

Accountholder

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the registered holder of the Global Certificate in accordance with and subject to the terms of the Global Certificate and the Trust Deed.

Transfers

Book-entry interests in the Notes represented by the Global Certificate are transferable only in accordance with, and subject to, the provisions hereof and the rules and operating procedures of the Clearing Systems. Transfers of such book-entry interests will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants.

Payments

Payments due in respect of Notes represented by the Global Certificate which, according to the Conditions, require surrender or endorsement of a Certificate, shall be made to or to the order of the registered holder and such payment will discharge the obligations of the Issuer in respect of the relevant payment under the

Notes. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to or to the order of the registered holder.

Notices

Notwithstanding Condition 15 (*Notices*) and Condition 9 (*Automatic Conversion*), so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of the Clearing Systems, or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) for communication to the relative accountholders rather than by publication as required by Condition 15 (*Notices*) **provided that**, so long as the Notes are admitted to listing or trading on any stock exchange, such notice is also given in a manner which complies with the rules and regulations of such stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) as aforesaid.

Conversion Shares Settlement Notice

Notwithstanding Condition 9(e)(vii) (*Automatic Conversion—Settlement Procedure*), so long as the Notes are represented by the Global Certificate deposited with a depository or a common depository for the Clearing Systems or an Alternative Clearing System, a Conversion Shares Settlement Notice may be given by a Holder by delivering it to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System and, in any case, such notices shall be deemed to have been delivered to the Conversion Shares Depository on the date of delivery of such notice to the Conversion Shares Depository by Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System and/or its depository or common depository.

Cash component

Notwithstanding Condition 9(e)(iii) (*Automatic Conversion—Settlement Procedure*), so long as the Notes are represented by the Global Certificate deposited with a depository or a common depository for the Clearing Systems or an Alternative Clearing System, the cash component, if any, of any Conversion Shares Offer Consideration will be delivered through the facilities of the Clearing Systems on or around the date on which the Conversion Shares Offer Period ends, subject to the applicable rules and operating procedures of the Clearing System in effect at such time.

Payment Business Day

In the case of all payments made in respect of the Global Certificate, so long as the Global Certificate is held on behalf of a Clearing System or an Alternative Clearing System, the definition for "**payment business day**" in Condition 7(d) (*Payment on Business Days*) shall be amended and shall be any day on which banks are open for general business (including dealings in foreign currencies) in London.

Record Date

For so long as all Notes are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 7(f) (*Record date*) provided that the words "fifteenth day" shall be deemed to be replaced with "Clearing System Business Day". "**Clearing System Business Day**" means a day on which each clearing system is open for business.

Calculation of interest

For so long as all of the Notes outstanding are represented by the Global Certificate, interest will be calculated in respect of the aggregate principal amount of the Notes represented by the Global Certificate (and not per Calculation Amount as provided in Condition 6(c) (*Calculation of interest*)) but otherwise in accordance with Condition 6 (*Interest*).

Clearing Systems

References in the Global Certificate and in these Listing Particulars to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

Electronic Consent and Written Resolution

For so long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of the Clearing Systems and/or an Alternative Clearing System then, in respect of any resolution proposed by the Issuer or the Trustee:

- (a) where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Noteholders through the Clearing Systems and/or an Alternative Clearing System as provided in the Trust Deed, each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing Systems and/or an Alternative Clearing System, as the case may be, to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the Notes outstanding by close of business on the relevant time and date for the blocking of their accounts in the relevant Clearing System and/or Alternative Clearing System (an "**Electronic Consent**"). Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Neither the Issuer nor the Trustee shall be liable or responsible to anyone for such reliance; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (i) by accountholders in the Clearing Systems and/or an Alternative Clearing System, as the case may be, with entitlements to such Global Certificate and/or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that Accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and, in the case of (ii) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and the accountholder identified by the relevant clearing system for the purposes of (ii) above. Any Written Resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general corporate purposes of the Group including downstreaming of funds to Clydesdale Bank in the form of subordinated debt intended to qualify as Additional Tier 1 capital of Clydesdale Bank.

INFORMATION ON THE ISSUER

The Issuer was incorporated in England and Wales on 18 May 2015, with registered number 9595911, under the Companies Act 2006 as a public limited company limited by shares with the name Pianodove PLC. Pianodove PLC changed its name to CYBG PLC on 1 October 2015. The registered office of the Issuer is at 20 Merrion Way, Leeds, LS2 8NZ (telephone number +44 (0)113 807 2000). The head office and principal place of business in the UK of the Issuer is at 40 St Vincent Place/51 West George St, Glasgow, G1 2HL (telephone number +44 (0)141 242 4533).

Corporate Structure

The Issuer is the ultimate parent company of Clydesdale Bank and owns 100 per cent. of the ordinary shares of Clydesdale Bank. A list of the Issuer's significant subsidiaries is set out below.

Clydesdale Bank has no material operations outside the UK. The Issuer does not hold a UK banking licence. The only non UK registered entities of the Group is a trustee company that is part of the 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.

On 15 October 2018, CYBG acquired the entire issued share capital of Virgin Money pursuant to the Acquisition (a recommended all-share offer to Virgin Money's shareholders). As at the date of these Listing Particulars, CYBG is the ultimate holding company of Virgin Money and the CYBG Group.

Subsidiaries

The Issuer is the holding company of the Group.

As at the date of these Listing Particulars the Issuer has the following significant subsidiary undertakings, each of which is wholly owned, either directly or indirectly, by the Issuer and were included in the 2019 First Quarter Trading Update and will be consolidated into the annual financial statements of the Issuer going forward:

Name	Principal Activity	Registered Office	Percentage of shares and voting rights held	Jurisdiction
Clydesdale Bank PLC	Banking	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
CYB Investments Limited	Holding company	20 Merrion Way, Leeds, LS2 8NZ	100	England
Yorkshire Bank Home Loans Limited	Mortgage finance	20 Merrion Way, Leeds, LS2 8NZ	100	England & Wales
CYB Intermediaries Limited	Insurance Intermediary	20 Merrion Way, Leeds, LS2 8NZ	100	England & Wales
Clydesdale Bank Asset Finance Limited	Asset Finance	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
CGF Limited	No.9 Asset Finance	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland

Name	Principal Activity	Registered Office	Percentage of shares and voting rights held	Jurisdiction
Clydesdale Bank (Head Office) Nominees Limited	In liquidation	Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2DB	100	Scotland
St Vincent (Equities) Limited	Investment Company	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
CB Nominees Limited	Dormant	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
CYB SSP Trustee Limited	Dormant	20 Merrion Way, Leeds, LS2 8NZ	100	England
YCB DC Trustee Limited	Dormant	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
YCBPS Property Nominee Company Limited	Dormant	20 Merrion Way, Leeds, LS2 8NZ	100	England
Yorkshire and Clydesdale Bank Pension Trustee Limited	Dormant	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
Yorkshire Bank PLC	Dormant	20 Merrion Way, Leeds, LS2 8NZ	100	England
Virgin Money Holdings (UK) plc	Holding Company	Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England
Virgin Money plc	Banking	Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England
Virgin Money Unit Trust Managers Limited	Investment Company	Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England
Virgin Money Nominees Limited	Dormant	Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England
Virgin Money Personal Finance Service Limited	Insurance and other Financial Services Products	Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England
Virgin Money Management Services Limited	Intra-Group Services	Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England

Northern Rock Dormant Limited			Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England
Virgin Money Giving Limited	Online Charitable Donation Services		Jubilee House, Gosforth, Newcastle-Upon-Tyne, NE4 4PL	100	England

Principal Shareholders

As at the date of these Listing Particulars, the Issuer's issued and fully paid-up capital consists of 1,428,658,877 ordinary shares of nominal value of £0.10 each. As at 31 December 2018, the following table contains information regarding the only persons the Issuer knows of that beneficially own 3 per cent. or more of its shares.

<u>Shareholders</u>	<u>Number of Shares</u>	<u>Percentage of Issued Share Capital</u>
Virgin Group Holdings Limited	188,083,550	13.17
Perpetual Limited and Subsidiaries	60,787,499	4.25
Investors Mutual Limited	53,659,761	3.76
Cooper Investors Pty Ltd	46,743,994	3.27
Schroders PLC	881,531,852	3.12

Ratings

As at the date of these Listing Particulars, the Long Term Issuer Rating assigned to the Issuer by Moody's was Baa3 (outlook Positive), the Long Term Issuer Default Rating assigned to the Issuer by Fitch was BBB+ (placed on Rating Watch Negative) and the Issuer Credit Rating assigned to the Issuer by S&P was BBB- (with stable outlook).

INFORMATION ON THE GROUP

Overview

Headquartered in Glasgow, the Group is a leading mid-sized UK retail and SME bank with over 175 years of history, offering 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.

History and Development of the Group

Clydesdale Bank

Clydesdale Bank was established in 1838 in Glasgow. The bank has a history of innovation and support for Scottish industry and communities. As at the date of these Listing Particulars, with 67 branches and a network of business and private banking centres, Clydesdale Bank is one of Scotland's largest banks.

Yorkshire Bank

Yorkshire Bank was founded in 1859 in Halifax, West Yorkshire by Colonel Edward Akroyd. With its head office in Leeds, the bank has, as at the date of these Listing Particulars, 90 branches, plus 22 business and private banking centres in the north of England and the Midlands.

B

The intuitive, mobile app-based banking service B was launched in 2016 offering a range of interactive tools designed to give customers greater control of their money wherever they are. B has a London-based innovation lab, called Studio B, which provides all branch services, and the first B store was opened in Birmingham, in 2017. B Works, an SME hub and retail store was launched in Manchester in January 2019.

Virgin Money

Virgin Money was founded in 1995 and is headquartered in Newcastle. It offers savings, mortgages, credit cards, current accounts, currency services, pensions, investments and protection products to customers across the UK.

The intention as of the date of these Listing Particulars is that the business, operations, assets, liabilities and obligations of Virgin Money plc will be transferred to Clydesdale Bank PLC pursuant to a transfer mechanic under Part VII of FSMA. The Part VII Transfer forms part of the wider integration plan CYBG is developing to integrate Virgin Money into the Group and deliver cost synergies. A phased migration of systems and customers and re-branding approach is being adopted which will be separated into several distinct phases aligned to transaction events that minimise the complexity to deliver and any impact on customers. This will be achieved in particular by leveraging product maturities and limiting the use of large-scale automated transfers, thereby avoiding any large migration events within the process. It is envisaged that the retail brand for the Group will transition to Virgin Money using a phased approach over a period of 36 months from completion of the Acquisition on 15 October 2018 and that all Virgin Money products and customers will be migrated in phases over time to CYBG's IT platform, with the exception of credit cards where CYBG card customers will be migrated to the TSYS platform used by Virgin Money.

Whilst the timing of any such Part VII Transfer is still being considered, if and when such Part VII Transfer occurs it is anticipated that Virgin Money's business will form part of the newly combined entity. It should be noted, however, that CYBG continues to develop its plans for the Part VII Transfer. As at the date of these Listing Particulars, there can be no assurance that the proposed Part VII Transfer will be implemented in its current proposed form, or at all. See "*Risk Factors - Risk Factors Relating to the Proposed Part VII Transfer*".

Business Activities of the Group

Retail Banking

The Group has a comprehensive regional and national retail banking product proposition offering a full range of banking products and services, including mortgages, current accounts, deposits, personal loans, credit cards, and overdraft facilities.

In addition, the Group also offers a range of investment, pension and insurance products. These products are underwritten by third parties and distributed by the Group to customers. The Group receives commissions and other payments in connection with these arrangements.

SME Banking

The Group offers its SME customers a full range of business banking products and services to meet their banking needs and is delivering on its pledge to support small and medium sized businesses across the UK as part of the Group's three-year commitment to fuel growth by lending £6 billion in the three years to 30 September 2019.

Strategy of the Group

Overview

The Group set out its strategy at a capital markets day in September 2016.

There are three clear strategic aims for the Issuer:

1. *Sustainable customer growth* - drive sustainable customer growth by investing to broaden the franchise across our target segments and regions while enhancing the customer experience
2. *Efficiency* - improve efficiency by making our network, operations and organisation more efficient and agile
3. *Capital optimisation* - by securing IRB accreditation and deploying our capital to support our business ambitions while balancing risk and reward

Sustainable customer growth

The Issuer's customers are at the heart of its strategy and to better support them the Issuer has been rapidly developing seamless customer services through delivery of its digitally-enabled, omni-channel distribution strategy. In response to consumers increasingly choosing to interact with their banks digitally, the Issuer has created a series of banking propositions which are digitally-led customer experiences supported by exceptional omni-channel service. The Issuer's customers can therefore interact with it through whichever channel they choose—online, mobile, tablet, phone, branch—whenever they want and in a seamless way.

The Issuer's digital banking platform, "iB", was built to support this strategy. As well as supporting real-time, omni-channel experiences the platform also enables the Issuer to partner with third parties to deliver additional financial and non-financial services to customers, empowering the creation of a technology-enabled, customer-centric proposition that resonates with consumers and enhances their lifestyles and businesses. The Issuer has made features available to customers through third parties connecting to its iB platform using secure, open API technology, and these are live today. Over time, the Issuer expects to create an ecosystem of associated services which will support customer acquisition and hence sustainable customer growth. Deploying the Issuer's existing and planned digital capabilities across the Virgin Money franchise offers opportunities for increased customer activity, product penetration and customer satisfaction.

Use of the "Virgin Money" brand, when combined with the Issuer's customer-centric service model is expected to lead to higher awareness, consumer interest and advocacy across the UK over time, generating increased customer acquisition and greater customer retention for the Group. The wider group of Virgin companies also provides attractive opportunities for partnerships and collaboration.

Efficiency

The Issuer intends to improve the Group's cost structure by delivering:

1. An enhanced organisational design
2. More for less through a focus on central cost management
3. Operational efficiency through improved customer service
4. Network efficiency through a customer banking transformation

At its capital markets day in September 2016, the Issuer set out its goal of achieving £100 million of net annual operating cost savings by the 2019 financial year versus its 2016 financial year underlying operating costs of £729 million.

Capital optimisation

The Issuer secured IRB accreditation for its mortgage and SME portfolios in October 2018. Progress has also been made with IRB accreditation for its retail unsecured lending, with all models now submitted to the PRA for review. Moving to IRB will improve the Issuer's competitive positioning, bring a stronger alignment of risk appetite and strategy, and reduce the intensity of risk weighted assets and potential future bail-in debt requirement (MREL).

Update

The Group plans to communicate an updated medium-term strategy at a capital markets day on 19 June 2019.

Other Relevant Information

Capital

As at 30 September 2018, the pro forma consolidated Group's capital position was:

- Common Equity Tier 1 ratio was 15.1 per cent.;
- Total Capital Ratio was 21.6 per cent.; and
- CRD IV Leverage Ratio was 4.7 per cent,

based on approximately £23 billion of Risk Weighted Assets.

As at 31 December 2018, the Common Equity Tier 1 ratio for the Group was 14.5 per cent.

Liquidity and Funding

Liquidity

The 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. The 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 the Group and to enable the Group to meet its financial obligations.

As at 30 September 2018, the Group's liquidity coverage ratio was 137 per cent. and its net stable funding ratio was 119 per cent.

The Group maintains a liquid asset portfolio that is primarily comprised of cash at the central banks, UK Government securities (gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA rated covered bonds). The Group manages this portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets.

As at 30 September 2018, the Group held unencumbered liquid assets of £5.4 billion.

Funding

The 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.

The majority of the Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. Reflecting the Group's retail deposit-led funding strategy, the Group's loan to deposit ratio at 30 September 2018 was 115 per cent., unchanged from 30 September 2017.

In addition to retail deposits, the Group seeks appropriate diversification of its funding base through a number of wholesale funding programmes. As at 30 September 2018, the Group had securities in issue with a value of £2,949 million from RMBS, £698 million from covered bonds and £794 million from medium term notes.

DB Scheme

Clydesdale Bank is the sponsoring employer of 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 the only employer in the DB Scheme. The DB Scheme was closed to new entrants in 2004 and is now closed to the future build-up of benefits for the majority of colleagues. As of 1 August 2017, all future pension benefits for colleagues build-up through the defined contribution pension scheme, "Total Pension!". A minority of members of the Yorkshire section of the DB Scheme, who did not consent to the changes, remain in the DB Scheme and are required to make a minimum contribution of 15 per cent. of base salary.

There are also a group of DB Scheme deferred members who remain on transitional terms following the closure of the DB Scheme to future accrual, who can take early retirement benefits with a lower actuarial reduction. Transitional terms finish on 31 July 2020 and apply only to members who attain the age of 55 by 31 July 2020, are still employed by the Group and retire by 31 July 2020 at the latest. The DB Scheme is operated separately from the 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 three years) to determine the funded status of the DB Scheme. Agreement was reached with the DB Trustee on the DB Scheme funding valuation at 30 September 2016, with a calculated deficit of £290 million. In the recovery plan dated 31 July 2017 the Group agreed to contribute £50 million per annum until 31 March 2022 and £55 million in the year to 31 March 2023 to eliminate this deficit. For future valuations 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 the Group and the trustees of the DB Scheme although the regulator established under Part 1 of the Pensions Act 2004 (as amended) in the UK has the power to set these in certain circumstances. The DB Trustee has the power to determine the investment strategy of the DB Scheme after consultation with Clydesdale Bank. In July 2017, the Issuer and DB Trustee agreed to the use of a contingent security arrangement which is intended to provide the DB Trustee with protection against the bank defaulting on its obligations under the recovery plan. An additional amount partially mitigates investment risk in the DB Scheme. The pension security arrangement is capital neutral for the bank and has no adverse impact on its liquidity position. The amount of security assets required will reduce as the Group makes contributions to the DB Scheme and the investment strategy is de-risked.

The following table sets out the Group's pension liability on an accounting basis and on a cash funding basis as at 30 September 2018:

	<i>£ million</i>
Value of assets	3,958
Value of liabilities	<u>3,746</u>
Surplus/(Deficit)	<u>212</u>
Funding Level	105.7%

Defined Contribution Scheme ("Total Pension!")

As of 1 August 2017, for the vast majority of colleagues all future pension benefits for colleagues will build-up through the defined contribution pension scheme, "Total Pension!". Core contributions are 2 per cent. employee, 8 per cent. employer with a further matching of 1 per cent. employee 1 per cent. employer up to a maximum of 5 per cent. employer.

DIRECTORS

The Directors of the Issuer, each of whose business address is 20 Merrion Way, Leeds, LS2 8NZ, United Kingdom, their functions in relation to the Group and their principal outside activities (if any) of significance to the Group are as follows:

<u>Name</u>	<u>Position</u>	<u>Principal directorships</u>
James Pettigrew	Chairman, Non-Executive Director	BlueBay Asset Management (Services) Ltd Milton Group PLC RBC Europe Limited Rathbone Brothers PLC Rathbone Investment Management Limited Lydekker Mews Residents Association Limited
David Duffy	Group Chief Executive Officer	NEWTA Limited
Ian Smith	Group Chief Financial Officer	67 Pall Mall Limited
David Bennett	Deputy Chairman and Senior Independent Non-Executive Director	Ashmore Group PLC Blemain Finance Limited Paypal (Europe) S.à.r.l et Cie S.C.A. Together Personal Finance Limited Spot Finance Limited Together123 Limited
Clive Adamson	Independent Non-Executive Director	The Prudential Assurance Company Limited J.P. Morgan International Bank Limited Ashmore Group PLC
Paul Coby	Independent Non-Executive Director	
Geeta Gopalan	Independent Non-Executive Director	Virgin Money plc Wizink Bank S.A. Ultra Electronics Holdings PLC
Adrian Grace	Independent Non-Executive Director	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.

Name	Position	Principal directorships
		Aegon UK Plc
		Aegon Holdings (UK) Limited
		Aegon Pensions Trustee Limited
		Aegon UK Property Fund Limited
		Scottish Equitable (Managed Funds) Limited
		Scottish Equitable Life Assurance Society
		Aegon SIPP Nominee Ltd
		Aegon SIPP Guarantee Nominee Limited
		Newcast Property Developments (One) Limited
		Newcast Property Developments (Two) Limited
		Momentum Group Limited
		Cofunds Limited
		Cofunds Nominees Ltd
		Cofunds Leasing Ltd
		Minster Nominees Ltd
		Dorset Nominees Ltd
		Aegon Investments Ltd
		Andrew Nominees Limited
		Victoria Nominees Limited
		Lochside Nominees Limited
		Witham Institutional Nominee Limited
		Aegon SIPP Nominee 2 Limited
		Origen Trustee Services Limited
Fiona MacLeod	Independent Non-Executive Director	Denholm Oilfield Services Limited
Darren Pope	Independent Non-Executive Director	Virgin Money plc
		Equiniti Group PLC
Dr Teresa Robson-Capps	Independent Non-Executive Director	Hastings Group Holdings PLC
		Yorkshire Water Services Limited
		FIL Holdings (UK) Limited
Amy Stirling	Independent Non-Executive Director	Virgin Money plc
		Virgin UK Holdings Limited
		VIRGIN.COM Limited
		Virgin Management Limited
		Virgin Holdings Limited
		VEL Holdings Limited

Name	Position	Principal directorships
		Classboss Limited
		Barfair Limited
		VM Advisory Limited
		RIT Capital Partners PLC
Tim Wade	Independent Non-Executive Director	Macquarie Bank International Limited
		The Access Bank UK Limited
		The Access Group Hong Kong Limited
		The Coeliac Trading Company Limited
		The AB EBT Limited
		ACE Europe Life Limited
		Chubb European Group PLC
		Chubb Underwriting Agencies Limited

None of the Directors has any potential conflicts of interests between their duties to the Issuer and their private interests or other duties.

DESCRIPTION OF THE ORDINARY SHARES

Set out below is a description of the principal rights attaching, as at the date of these Listing Particulars, to the ordinary shares that will be issued in the event that the Notes are converted in accordance with their terms.

Share Capital

The issued and fully paid share capital of the Issuer as at the date hereof is:

Class	Issued and fully paid		
	Nominal Value	Number	Amount
Ordinary	£0.10 each	1,429,585,840	£142,958,584

Articles of Association

The Issuer's articles of association (the "**Articles of Association**") were adopted by special resolution of the Issuer on 20 November 2015. A summary of the material provisions of the Articles of Association in respect of the Ordinary Shares is set out below.

Voting Rights

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.

Governing Law

The Articles of Association and the laws of England and Wales govern the relationship between the Issuer and its members.

Dividends

Subject to the Companies Act 2006 and the Articles of Association, the Issuer 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 2006 and rights attached to shares, the Issuer 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 of Association 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 Issuer 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 Issuer.

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 Issuer'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 of Association, the Issuer 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 2006 and the Articles of Association, the Issuer 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.

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 Issuer 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.

Method of Payment

The Issuer may pay any dividend, interest or other amount payable in respect of a share in the Issuer 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 Issuer may credit the amount payable to an account of the Issuer 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 Issuer will not be a trustee of the money and no interest will accrue on the money.

Transfer of Shares

- (a) Subject to the Articles of Association, shares of the Issuer 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 Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) (including any modification, re enactments or substitute regulations for the time being in force) (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 renounee or not more than four joint transferees or renounee;

- (iii) it is duly stamped (if required); and
 - (iv) it is delivered for registration to the registered office of the Issuer 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 Issuer is not required by sections 769, 776, 777 or 778 of the Companies Act 2006 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 renounee as soon as practicable and in any event within two months of the date on which the transfer or renunciation was lodged with the Issuer 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 Issuer as participating issuer must register the transfer in accordance with the relevant Operator instruction, but so that the Issuer may refuse to register such a transfer in any circumstance permitted by the Regulations.
 - (i) In accordance with the Regulations, if the Issuer 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 Issuer, send notice of the refusal to the transferee.
 - (j) The Issuer (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.

Variation of Rights

Subject to the Companies Act 2006, the rights attached to a class of shares may be varied or abrogated (whether or not the Issuer 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 of Association.

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 Issuer of its own shares in accordance with the Companies Act 2006.

Redeemable Shares in the Issuer

Subject to the Companies Act 2006, the Issuer may issue shares which are to be redeemed or are liable to be redeemed at the option of the Issuer or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

Winding Up

On a voluntary winding up of the Issuer, the 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 Issuer, whether or not the assets consist of property of one kind or of different kinds and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he, with the like sanction, shall determine. For this purpose the liquidator may set the value he deems fair on a class or classes of property and determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

Admission to Trading of the Ordinary Shares

The Ordinary Shares have a listing in the United Kingdom.

In the United Kingdom, the Ordinary Shares currently in issue are listed on the premium segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities. The London Stock Exchange dates back to 1801 and the London Stock Exchange's regulated market is regulated by the FCA.

On 8 March 2019, the daily trading volume of all order book trading on the London Stock Exchange was approximately 218,137,370 shares. Price and trading information is available on the London Stock Exchange's website which is continually updated with a 15 minute time delay. The trading prices of the Ordinary Shares and daily trading volumes are published on the London Stock Exchange's website and in the London Stock Exchange's Daily Official List. The ISIN of the Ordinary Shares is GB00BD6GN030. Further information about the London Stock Exchange can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.

TAXATION

UNITED KINGDOM TAXATION CONSIDERATIONS

The following is a summary of United Kingdom taxation law at the date hereof in relation to certain aspects of the Notes. Save where expressly stated to the contrary, it is based on current law and the published practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with all United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and who hold the Notes as investments. Certain classes of persons such as dealers, certain professional investors or persons connected with the Issuer may be subject to special rules not covered by this summary. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that might be relevant to a prospective purchaser. Holders who are in any doubt as to their tax position should consult their professional advisers. Holders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax

1. The Notes issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange (within the meaning of section 1005 of the Income Tax Act 2007 (the "Act")) or admitted to trading on a "multilateral trading facility" (within the meaning of section 987 of the Act). Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

The Irish Stock Exchange (trading as Euronext Dublin) is a recognised stock exchange, and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be included in the Official List and admitted to trading on the Global Exchange Market of Euronext Dublin.

2. If the exemption above does not apply, interest on the Notes that has a United Kingdom source may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief or exemption as may be available.

Other considerations

Where interest has been paid under deduction of United Kingdom income tax, Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

UK stamp duty and stamp duty reserve tax

1. No United Kingdom stamp duty or stamp duty reserve tax ("**SDRT**") should be payable in the UK on the issue of the Notes into Clearing Systems. Provided no election that applies to the Notes is or has been made under section 97A of the Finance Act 1986 (a "**97A election**") by a Clearing System, no stamp duty

or SDRT should be payable on their transfer within that Clearing System without an instrument of transfer. However, if a 97A election were to apply to the Notes in the future, transfers of the Notes within the Clearing System could, unless an exemption applies, be subject to SDRT, generally as the rate of 0.5 per cent. of the consideration given under the agreement to transfer the Notes.

2. The Finance Act 2019 introduced a new regime for hybrid capital instruments (the "HCI rules"). The HCI rules contain an exemption from all stamp duties so that no liability to United Kingdom stamp duty or stamp duty reserve tax should arise on the issue or transfer of the Notes provided that the Notes each constitute a "hybrid capital instrument" for the purposes of the HCI rules and there are no arrangements, the main purpose, or one of the main purposes, of which is to secure a tax advantage.

The Notes should constitute "hybrid capital instruments" for the purposes of the HCI rules provided that:

- the Issuer is entitled to defer or cancel a payment of interest under the Notes;
- the Notes "have no other significant equity features"; and
- the Issuer has made an election in respect of the Notes.

The Notes would "have no other significant equity features" provided that:

- the Notes carry neither significant voting rights in the Issuer nor a right to exercise a dominant influence over the Issuer;
- any provision in the Notes for altering the amount of the principal is limited to write-down or conversion events in certain qualifying cases and that is not a right exercisable by the Noteholders; one of the qualifying cases is where a provision is included solely because of a need to comply with a regulatory or other legal requirement; and
- any provision for the Noteholder to receive anything other than interest or principal is limited to conversion events in qualifying cases.

3. The Issuer has made a valid election in respect of the Notes, in accordance with the provisions of Section 475C of the Corporation Tax Act 2009, which has taken effect and the Notes are not being issued in consequence of, or otherwise in connection with, any arrangements, the main purpose, or one of the main purposes of which, is to secure a tax advantage. Consequently, the Issuer believes that the HCI rules should apply to the Notes such that they would benefit from the exemption from all stamp duties

4. No United Kingdom stamp duty or stamp duty reserve tax will be payable by a Holder on a cash redemption of the Notes in accordance with the Conditions.

5. No liability to United Kingdom stamp duty or stamp duty reserve tax will arise for a Holder on the redemption of the Notes, and the issue of any Conversion Shares, under an Automatic Conversion of the Notes into Conversion Shares in accordance with the Conditions.

6. United Kingdom stamp duty and stamp duty reserve tax may be payable in relation to a Conversion Shares Offer.

7. The above description of the United Kingdom stamp duty and stamp duty reserve tax position does not deal with the issue, transfer or agreement to transfer of any Approved Entity Shares.

The U.S. Foreign Account Tax Compliance Act ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements.

A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions

and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer) and/or characterised as equity for U.S. tax purposes. However, if additional notes (as described under Condition 18 (*Further Issues*)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or which may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

SUBSCRIPTION AND SALE

Each of the Joint Lead Managers has, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 11 March 2019, agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount less a combined commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or placed within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Joint Lead Manager has represented and agreed that it has offered and sold the Notes, and agrees that it will offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Lead Manager has agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or placed within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S ("**Regulation S**") under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of the IMD where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Switzerland

These Listing Particulars are not intended to constitute an offer or solicitation to purchase or invest in the Notes.

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither these Listing Particulars nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither these Listing Particulars nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

None of these Listing Particulars, any other offering or marketing material relating to the offering, the Issuer or the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, for example, the Swiss Financial Markets Supervisory Authority ("**FINMA**"), and investors in the Notes will not benefit from protection or supervision by FINMA.

Singapore

These Listing Particulars have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, these Listing Particulars or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified and amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, 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 the Notes 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 or securities-based derivatives contracts (each term as defined in Section 2(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 Notes pursuant to an offer made under Section 275 of the SFA except:

- 1) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- 2) where no consideration is or will be given for the transfer;
- 3) where the transfer is by operation of law;
- 4) as specified in Section 276(7) of the SFA; or
- 5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Manager has represented and agreed that it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"), by means of any document, any Notes, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong (the "**SFO**") and any rules made under the SFO; 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; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, 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 Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

General

No action has been taken by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

The Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in MiFID II. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" in these Listing Particulars for further information.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been duly authorised by a resolution of the Board dated 28 November 2018 and a resolution of an executive director of the Issuer dated 28 February 2019.

Listing and Trading

2. Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the approval of these Listing Particulars. Applications have been made to Euronext Dublin for the Notes to be admitted to the official list of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin. The total expenses related to the admission to trading are expected to be €4,540.

Legal and Arbitration Proceedings

3. Save as disclosed in relation to historic sales of PPI and IRHP in the sections entitled "*Risk Factors — Risks relating to the Group — The Group is subject to risks associated with compliance with a wide range of laws and regulations*" and "*Risk Factors — Risks relating to the Group — The Group faces risks relating to complaints and redress issues from sales of historic financial products, which may not be covered by existing provisions*" of these Listing Particulars, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of these Listing Particulars, a significant effect on the financial position, operations or profitability of the CYBG Group.

Significant Change

4. Since 31 December 2018, there has been no significant change in the financial or trading position of the Issuer or the CYBG Group.

Material Change

5. Save as disclosed in the 2019 First Quarter Trading Update, which is incorporated by reference in these Listing Particulars, since 30 September 2018, there has been no material adverse change in the prospects of the Issuer or the CYBG Group.

Auditors

6. The annual consolidated accounts of the Issuer for the years ended 30 September 2018 and 30 September 2017 have been audited without qualification by Ernst & Young LLP of 1 More London Place, London SE1 2AF, United Kingdom. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Irish Listing Agent

7. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the official list of Euronext Dublin or to trading on the Global Exchange Market of Euronext Dublin.

Documents on Display

8. Physical copies of the following documents may be inspected during normal business hours at the registered office of the Issuer at 20 Merrion Way, Leeds, LS2 8NZ, United Kingdom for so long as the Notes remain outstanding:
 - (a) the Articles of Association of the Issuer;
 - (b) the 2018 Audited Financial Statements and 2017 Audited Financial Statements;
 - (c) the 2018 Pillar 3 Disclosures;

- (d) the 2019 First Quarter Trading Update;
- (e) the Trust Deed and the Agency Agreement; and
- (f) these Listing Particulars.

Third Party Information

9. Where information in these Listing Particulars has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where it is used.

LEI

10. The Legal Entity Identifier ("**LEI**") of the Issuer is 213800ZK9VGCYYR6O495.

Clearing

11. The Notes have been accepted for clearance through the Clearing Systems. The ISIN is XS1959441640 and the common code is 195944164. The CFI is DYFXXR and the FISN is CYBG PLC/9.25EUR NT PERP SUB.
12. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Joint Lead Managers Transacting with the Issuer

13. Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. Certain of the Joint Lead Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**REGISTERED
OFFICE OF THE ISSUER**

CYBG PLC
20 Merrion Way
Leeds LS2 8NZ
United Kingdom

JOINT LEAD MANAGERS

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Lloyds Bank Corporate Markets plc

10 Gresham Street
London EC2V 7AE
United Kingdom

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
United Kingdom

NatWest Markets Plc

250 Bishopsgate
London EC2M 4AA
United Kingdom

**PRINCIPAL PAYING AGENT
AND TRANSFER AGENT**

Citibank, N.A., London branch

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Europe AG

Germany Agency & Trust Department
Reuterweg 16
60323 Frankfurt
Germany

TRUSTEE

Citicorp Trustee Company Limited

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LP
United Kingdom

LEGAL ADVISERS

*Legal Advisers to the Issuer as to
English law:*

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ
United Kingdom

*Legal Advisers to the Joint
Lead Managers and to the
Trustee as to English law:*

Linklaters LLP

One Silk Street
London EC2Y 8HQ
United Kingdom

AUDITORS TO THE ISSUER

Ernst & Young LLP

1 More London Place
London SE1 2AF
United Kingdom

IRISH LISTING AGENT

Arthur Cox Listing Services Limited

Ten Earlsfort Terrace
Dublin 2
Ireland