

**CYBG PLC**  
**(Company)**

**LEI: 213800ZK9VGCYYR6O495**

7 September 2018

### **Publication of Base Prospectus**

The following base prospectus has been approved by the UK Listing Authority and is available for viewing:

*Base Prospectus dated 7 September 2018 for the CYBG PLC £10,000,000,000 Global Medium Term Note Programme.*

Please read the disclaimer below “*Disclaimer — Intended Addressees*” before attempting to access this service, as your right to do so is conditional upon complying with the requirements set out below.

The full document is attached.

A copy of the above document has been submitted to the National Storage Mechanism and will shortly be available for inspection at: <http://www.morningstar.co.uk/uk/NSM>.

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### **DISCLAIMER - INTENDED ADDRESSEES**

**IMPORTANT:** You must read the following before continuing: The following applies to the Base Prospectus available by clicking on the link above, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE BASE PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND IN RELIANCE ON, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”). ANY

CYBG PLC is registered in England and Wales (company number: **09595911**) and as a foreign company in Australia (**ARBN 609 948 281**) and has its registered office at 20 Merrion Way, Leeds, West Yorkshire LS2 8NZ

FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE BASE PROSPECTUS IN WHOLE OR IN PART IS PROHIBITED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC PUBLICATION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY NOTES ISSUED OR TO BE ISSUED PURSUANT TO THE BASE PROSPECTUS RELATING TO THE CYBG PLC £10,000,000,000 GLOBAL MEDIUM TERM NOTE PROGRAMME (THE “**BASE PROSPECTUS**”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ANY NOTES ISSUED OR TO BE ISSUED PURSUANT TO THE BASE PROSPECTUS MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS REASONABLY BELIEVED TO BE QUALIFIED INSTITUTIONAL BUYERS (EACH A “**QIB**”) WITHIN THE MEANING OF RULE 144A OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

Please note that the information contained in the Base Prospectus may be addressed to and/or targeted at persons who are residents of particular countries (specified in the Base Prospectus) only and is not intended for use and should not be relied upon by any person outside these countries and/or to whom the offer contained in the Base Prospectus is not addressed. Prior to relying on the information contained in the Base Prospectus you must ascertain from the Base Prospectus whether or not you are part of the intended addressees of the information contained therein.

**Confirmation of your Representation:** In order to be eligible to view the Base Prospectus or make an investment decision with respect to any Notes issued or to be issued pursuant to the Base Prospectus, you must be (A) a person other than a U.S. person (within the meaning of Regulation S under the Securities Act); or (B) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accessing the Base Prospectus, you shall be deemed to have represented that you and any customers you represent are not a U.S. person (as defined in Regulation S to the Securities Act) or that you are a QIB, and that you consent to delivery of the Base Prospectus and any supplements thereto via electronic publication.

You are reminded that the Base Prospectus has been made available to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

The Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of CYBG PLC in such jurisdiction. Under no circumstances shall the Base Prospectus constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of any Notes issued or to be issued pursuant to the Base Prospectus, in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Base Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of CYBG PLC, its advisers or any person who controls CYBG PLC or any director, officer, employee or agent of CYBG PLC or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus made available to you in electronic format and the hard copy version available to you on request from CYBG PLC.

BASE PROSPECTUS DATED 7 SEPTEMBER 2018



**CYBG PLC**

*(incorporated with limited liability in England and Wales)*

£10,000,000,000

**Global Medium Term Note Programme**

Any notes ("**Notes**") issued pursuant to this base prospectus (the "**Base Prospectus**") under the Global Medium Term Note Programme (the "**Programme**") on or after the date of this Base Prospectus are issued subject to the provisions described herein. Under the Programme, CYBG PLC (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Notes. The aggregate principal amount of Notes outstanding under the Programme will not at any time exceed £10,000,000,000 (or the equivalent in other currencies), subject to increase as provided herein.

This Base Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 ("**FSMA**") as a base prospectus issued in compliance with Directive 2003/71/EC, as amended and relevant implementing measures in the United Kingdom (the "**Prospectus Directive**") for the purpose of giving information with regard to the issue of Notes issued under the Programme described in this Base Prospectus during the period of 12 months from the date of approval of this Base Prospectus. This Base Prospectus comprises a base prospectus for the purpose of Article 5.4 of the Prospectus Directive. Applications have been made for such Notes to be admitted during the period of 12 months from the date of approval of this Base Prospectus to listing on the Official List of the FCA (the "**Official List**") and to trading on the regulated market of the London Stock Exchange plc (the "**London Stock Exchange**"). The regulated market of the London Stock Exchange is a regulated market for the purposes of Directive 2014/65/EU, as amended, on markets in financial instruments (the "**Market**"). References in this Base Prospectus to Notes being "**listed**" (and all related references) shall, unless the context otherwise requires, mean that such Notes have been admitted to the Official List and admitted to trading on the Market.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exemptions, the Notes are not being offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S ("**Regulation S**")). The Notes are being offered and sold outside the United States to persons that are not U.S. persons in reliance on Regulation S and (in the case of Notes represented by Restricted Global Certificates) within the United States to "qualified institutional buyers" (each, a "**QIB**") as defined in and pursuant to Rule 144A under the Securities Act ("**Rule 144A**"). See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes are not deposit liabilities of the Issuer and are not covered by the United Kingdom Financial Services Compensation Scheme ("**FSCS**") or insured by the U.S. Federal Deposit Insurance Corporation or any other governmental agency of the United States, the United Kingdom or any other jurisdiction.

**Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" below.**

**Arranger**

**Morgan Stanley**

**Dealers**

**Barclays**

**Citigroup**

**Lloyds Bank Corporate Markets**

**BofA Merrill Lynch**

**Credit Suisse**

**Morgan Stanley**

**NatWest Markets**

## IMPORTANT NOTICES

### Responsibility for this Base Prospectus

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms (as defined below) for each tranche of Notes issued under the Programme and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus (or the Final Terms as the case may be) is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

### Final Terms/Drawdown Prospectus

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” (the “**Conditions**”) as completed by a document specific to such Tranche called final terms (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (the “**Drawdown Prospectus**”) as described under “*Final Terms and Drawdown Prospectuses*” below.

### The Notes

Notes may be issued under the Programme which have a denomination of at least €100,000 (or its equivalent in any other currency).

Each Tranche of Notes in registered form (“**Registered Notes**”) will be represented by either (A) individual note certificates in registered form (“**Individual Certificates**”); or (B) one or more unrestricted global note certificates (“**Unrestricted Global Certificates**”) in the case of Registered Notes sold outside the United States to persons that are not U.S. persons in reliance on Regulation S and/or one or more restricted global note certificates (“**Restricted Global Certificates**”) (together with the Unrestricted Global Certificate(s), the “**Global Certificates**”) in the case of Registered Notes sold to QIBs in reliance on Rule 144A.

Each Note represented by an Unrestricted Global Certificate will either be: (A) in the case of a Global Certificate which is not to be held under the new safekeeping structure (“**NSS**”), registered in the name of a common depository (or its nominee) for Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) and/or any other relevant clearing system and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common depository and/or the sub-custodian; or (B) in the case of a Global Certificate to be held under the NSS, registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Note represented by a Restricted Global Certificate will be: (A) deposited with, and registered in the name of, a nominee, common depository or common safekeeper for Euroclear or Clearstream, Luxembourg; or (B) registered in the name of Cede & Co. as nominee for the Depository Trust Company (“**DTC**”) and the relevant Restricted Global Certificate will be deposited on or about the issue date with the custodian for DTC (the “**DTC Custodian**”). Beneficial interests in Notes represented by a Restricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by such clearing systems and their respective participants.

Each Tranche of Notes in bearer form (“**Bearer Notes**”) will initially be in the form of either a temporary global note in bearer form (the “**Temporary Global Note**”), without interest coupons, or a permanent global note in bearer form (the “**Permanent Global Note**”), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a “**Global Note**”) which is not intended to be issued in new global note (“**NGN**”) form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of Notes with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and each Global Note which is

intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

### **Other relevant information**

This Base Prospectus must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer has confirmed to the Dealers named under “*Subscription and Sale*” below that this Base Prospectus contains all information with regard to it and its subsidiaries which is (in the context of the Programme or the issue, offering and sale of the Notes) material, that such information is true and accurate in all material respects and not misleading and does not omit to state any other fact required (in the context of the Programme or the issue, offering and sale of the Notes) to be stated therein or the omission of which would make any information contained herein misleading in any material respect and all reasonable enquiries have been made to ascertain such facts and to verify the accuracy of all such information.

To the fullest extent permitted by law, none of the Dealers, the Arranger, Citicorp Trustee Company Limited (the “**Trustee**”), Citibank, N.A., London Branch (the “**Principal Paying Agent**”, “**Calculation Agent**” and “**Transfer Agent**”) or Citigroup Global Markets Europe AG (the “**Registrar**” and together with the Principal Paying Agent, the Calculation Agent and the Transfer Agent, the “**Agents**”) accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger, the Trustee, the Agents or a Dealer or on its behalf in connection with the Issuer or Virgin Money or the issue and offering of the Notes. The Arranger, the Trustee and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. The statements made in this paragraph are without prejudice to the responsibilities of the Issuer under or in connection with the Notes.

### **Unauthorised Information**

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, Virgin Money, the Arranger, the Trustee, the Agents or any Dealer.

None of the Dealers, the Arranger, or any of their respective affiliates, the Trustee or the Agents has authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or Virgin Money since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers, the Agents and the Trustee

expressly do not undertake to review the financial condition or affairs of the Issuer or Virgin Money during the life of the Programme nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Trustee or the Agents. Investors should review, *inter alia*, the most recent published financial statements of the Issuer and Virgin Money when evaluating the Notes.

### **Restrictions on distribution**

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Registered Notes represented by the Unrestricted Global Certificate(s) are being offered and sold outside the United States to persons that are not U.S. persons in reliance on Regulation S (“**Unrestricted Registered Notes**”) and the Registered Notes represented by the Restricted Global Certificate(s) are being offered and sold within the United States to QIBs in reliance on the exemption from registration under the Securities Act provided by Rule 144A (“**Restricted Registered Notes**”). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

To permit compliance with Rule 144A in connection with resale of Notes that are “Restricted Securities” (as defined in Rule 144(a)(3) under the Securities Act), the Issuer will furnish upon the request of a holder of such Notes or of a beneficial owner of an interest therein, to such holder or beneficial owner or to a prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A(d)(4) under the Securities Act, if at the time of such request, the Issuer is not a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

**NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

**PRIIPs / IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms in respect of any Notes includes a legend entitled “*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 European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of:

- (A) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“**MIFID II**”);

- (B) a customer within the meaning of the Insurance Mediation Directive 2002/92/EC, as amended (the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
- (C) not a qualified investor as defined in the Prospectus Directive.

Consequently, no key information document required by Regulation (EU) No 1286/2014, as amended (the “**PRIPs Regulation**”) 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 the PRIPs Regulation.

**MIFID II PRODUCT GOVERNANCE / TARGET MARKET** – The Final Terms in respect of any Notes will include a legend entitled “MiFID II Product Governance/Target Market” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes 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 target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

### **Benchmark Regulation**

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the “**Benchmark Regulation**”). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to Article 36 (register of administrators and benchmarks) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

Neither this Base Prospectus nor any Final Terms nor any of the documents incorporated by reference constitutes an offer or an invitation to subscribe for or purchase any Notes and are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, Virgin Money, the Trustee, the Arranger or any of the Dealers that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and Virgin Money.

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 must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (A) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risk of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (B) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (C) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes or where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- (D) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (E) 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: (1) Notes are legal investments for it; (2) Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

### **Proposed Acquisition of Virgin Money**

This Base Prospectus includes information relating to the proposed acquisition by the Issuer of the entire issued share capital of Virgin Money Holdings (UK) plc ("**Virgin Money**") (the "**Offer**"), and the issue and admission of up to 548,000,000 new Issuer shares. For further information on the Offer, please refer to '*Part I Information about the Offer*' in the 2018 Virgin Money Proposed Acquisition and Share Prospectus, which is incorporated by reference into this Base Prospectus.

### **Programme limit**

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed £10,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into pounds sterling at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Programme Agreement as defined under "*Subscription and Sale*"). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement.

### **Currency definitions**

In this Base Prospectus, references to: (A) "**£**", "**GBP**" or "**pounds sterling**" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**" or the "**UK**"); (B) "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended; and (C) "**U.S.\$**" or "**U.S. dollars**" are to the lawful currency for the time being of the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia (the "**United States**" or "**U.S.**").



Certain figures included in this Base Prospectus 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.

## **Ratings**

As at the date of this Base Prospectus, the Long Term Issuer Default Rating assigned to the Issuer by Fitch Ratings Limited ("**Fitch**") was BBB+ and the Issuer Credit Rating assigned to the Issuer by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") was BBB-. Fitch and S&P are established in the EEA and registered under Regulation (EU) No. 1060/2009, as amended (the "**CRA Regulation**"). As such, each of Standard & Poor's and Fitch is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) applicable to the Issuer or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (A) issued by a credit rating agency established in the EEA and registered under the CRA Regulation; (B) issued by a credit rating agency which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation; or (C) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation, will be disclosed in the Final Terms.

**A 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.**

## **Stabilisation**

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of 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 of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## **SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES**

The Issuer is duly incorporated as a public limited company incorporated under the laws of England and Wales. All of the Issuer's directors and executive officers are non-residents of the United States. All or a substantial portion of the assets of the Issuer and of their respective directors and officers are located outside the United States. As a result, it may not be possible for an investor to effect service of process within the United States upon those persons or to enforce against them judgements of U.S. courts based upon the civil liability provisions of the federal securities laws of the United States.

## SUPPLEMENTAL BASE PROSPECTUS

If at any time the Issuer shall be required to prepare a supplement to the Base Prospectus pursuant to Section 87 of the FSMA, or to give effect to the provisions of Article 16(1) of the Prospectus Directive, the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further base prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental base prospectus as required by the FCA and Section 87 of the FSMA.

## FORWARD-LOOKING STATEMENTS

Some of the statements in this Base Prospectus include forward-looking statements which reflect the Issuer's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the business of the Issuer and its subsidiaries taken as a whole (the "**Group**"), Virgin Money and its subsidiaries taken as a whole (the "**Virgin Money Group**") and the enlarged group of companies which will, following completion of the Offer, comprise the Group and the Virgin Money Group (the "**Combined Group**"). These forward-looking statements relate to the Group, the Virgin Money Group and/or the Combined Group and the sectors and industries in which the Group, the Virgin Money Group and/or the Combined Group operate. 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 Group's, the Virgin Money Group's and/or the Combined Group's actual results or industry results to differ materially from those indicated in these statements. These factors include, but are not limited to, those described in "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this Base Prospectus.

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Base Prospectus speak only as of the date of this Base Prospectus, 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 Group's, the Virgin Money Group's and/or the Combined Group's operations, results of operations, growth strategy, capital and leverage ratios and liquidity. Investors should specifically consider the factors identified in this Base Prospectus which could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Base Prospectus, including the documents incorporated by reference herein, are qualified by these cautionary statements. Specific reference is made to "*Risk Factors*" and "*Information on the Group*".

Subject to any obligations under the rules published by the FCA under Section 73A of the Financial Services and Markets Act 2000, as amended (the "**FSMA**"), the rules and regulations made by the FCA under Part VI of FSMA and/or the disclosure and transparency rules produced by the FCA and forming part of the handbook of the FCA, 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 Group, the Virgin Money Group and/or the Combined Group or individuals acting on behalf of the Group, the Virgin Money Group and/or the Combined Group are expressly qualified in their entirety by this section.

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## INFORMATION INCORPORATED BY REFERENCE

The following information has been filed with the FCA and shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- (A) the unaudited third quarter trading update of the Issuer dated 30 July 2018, confirming the Issuer's trading results in respect of the three months ended 30 June 2018 (the "**2018 Third Quarter Trading Update**");
- (B) the unaudited consolidated financial statements and the independent auditor's review report of the Issuer in respect of the six months ended 31 March 2018 set out on pages 30 to 59 (inclusive) of the Issuer's 2018 Interim Financial Report (the "**2018 Interim Financial Statements**");
- (C) 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**");
- (D) the following information set out on specified pages 139 to 170 of the Annual Report of the Issuer containing the 2017 Audited Financial Statements (the "**2017 Annual Report**"):
  - (1) the following financial performance measures: (i) net interest margin (NIM), (ii) underlying return on tangible equity (RoTE), (iii) underlying cost to income ratio (CIR), and (iv) impairment charge to average customer loans (cost of risk), as set out on pages 39-40 and 249-252;
  - (2) the reconciliation of statutory to underlying results on pages 38 and 47 and the reconciliation of gross cost of risk and net cost of risk on page 45;
  - (3) the table on page 139 entitled "*Key Credit Metrics (audited)*";
  - (4) the table on page 140 entitled "*Maximum exposure to credit risk (audited)*";
  - (5) the table on page 142 entitled "*Loans and advances to customers (audited)*";
  - (6) the table on page 142 entitled "*Retail secured credit by loan size concentration (audited)*";
  - (7) the table on page 143 entitled "*Gross loans and advances to customers including loans designated at fair value through profit or loss (audited)*";
  - (8) the table on page 143 entitled "*Contingent liabilities and credit related commitments (audited)*";
  - (9) the table on page 145 entitled "*LTV (audited)*";
  - (10) the two tables on page 146 under the heading "*Non-property related collateral*";
  - (11) the table on page 148 entitled "*As at 30 September 2017 (audited)*";
  - (12) the table on page 148 entitled "*As at 30 September 2016 (audited)*";
  - (13) the table on page 149 under the heading "*SME forbearance*" titled "*As at 30 September 2017 (audited)*";

- (14) the table on page 149 under the heading “*SME forbearance*” titled “*As at 30 September 2016 (audited)*”;
  - (15) the table on page 150 entitled “*Distribution of loans and advances to customers by credit quality (audited)*”;
  - (16) the two tables on pages 150 to 151 under the heading “*Loans and advances which were past due but not impaired*”;
  - (17) the two tables on page 151 under the heading “*Movement in impairment provisions throughout the year*”;
  - (18) the table on page 152 entitled “*Maximum exposure to credit risk*”;
  - (19) the table on page 153 entitled “*2017 (audited)*”;
  - (20) the table on page 153 entitled “*2016 (audited)*”;
  - (21) the table on page 162 entitled “*Sources of funding (audited)*”;
  - (22) the table on page 163 entitled “*Liquid asset portfolio*”;
  - (23) the two tables on page 164 entitled “*Encumbered assets by asset category (audited)*”;
  - (24) the two tables on pages 165 to 166 under the heading “*Assets and liabilities by maturity*”;
  - (25) the two tables on page 167 under the heading “*Cash flows payable under financial liabilities by contractual maturity*”;
  - (26) the table on page 169 entitled “*Interest rate risk (audited)*”;
  - (27) the two tables on page 169 under the heading “*Principal financial assets and liabilities*”; and
  - (28) the two tables on page 170 entitled “*Repricing periods of assets and liabilities by asset/liability category*”.
- (E) the audited consolidated financial statements and the independent auditor’s audit report of the Issuer in respect of the year ended 30 September 2016 set out on pages 200 to 296 (inclusive) of the Issuer’s 2016 Annual Report and Accounts (the “**2016 Audited Financial Statements**”);
- (F) the following tables set out on specified pages 150 to 190 of the Annual Report of the Issuer containing the 2016 Audited Financial Statements (the “**2016 Annual Report**”):
- (1) the table on page 150 entitled “*Key Credit Metrics (audited)*”;
  - (2) the table on page 152 entitled “*Maximum exposure to credit risk (audited)*”;
  - (3) the two tables on page 154 entitled “*Lending Balances*”;
  - (4) the table on page 155 entitled “*Loans and advances to customers (audited)*”;

- (5) the table on page 155 entitled "*Retail secured credit by loan size concentration (audited)*";
- (6) the table on page 157 entitled "*Gross loans and advances to customers including loans designated at fair value through profit or loss (audited)*";
- (7) the table on page 157 entitled "*Contingent liabilities and credit related commitments (audited)*";
- (8) the table on page 159 entitled "*LTV (audited)*";
- (9) the two tables on page 160 under the heading "*Non property related collateral*";
- (10) the table on page 162 entitled "*As at 30 September 2016 (audited)*";
- (11) the table on page 162 entitled "*As at 30 September 2015 (audited)*";
- (12) the table on page 163 under the heading "*SME forbearance*" titled "*As at 30 September 2016 (audited)*";
- (13) the table on page 163 under the heading "*SME forbearance*" titled "*As at 30 September 2015 (audited)*";
- (14) the table on page 164 entitled "*Distribution of loans and advances to customers by credit quality (audited)*";
- (15) the two tables on page 164 under the heading "*Loans and advances which were past due but not impaired*";
- (16) the two tables on page 165 under the heading "*Movement in impairment provisions throughout the year*";
- (17) the table on page 167 entitled "*Maximum exposure to credit risk*";
- (18) the table on page 168 entitled "*2016 (audited)*";
- (19) the table on page 168 entitled "*2015 (audited)*";
- (20) the table on page 179 entitled "*Sources of funding (audited)*";
- (21) the table on page 181 entitled "*Liquid asset reserve (audited)*";
- (22) the table on page 181 entitled "*Liquid assets (audited)*";
- (23) the table on page 182 entitled "*Encumbered assets by asset category (audited)*";
- (24) the two tables on pages 183 to 184 under the heading "*Assets and liabilities by maturity*";
- (25) the two tables on page 185 under the heading "*Cash flows payable under financial liabilities by contractual maturity*";
- (26) the table on page 187 entitled "*Interest rate risk (audited)*";

- (27) the two tables on page 188 under the heading “*Principal financial assets and liabilities (audited)*”; and
  - (28) the two tables on pages 189 and 190 entitled “*Repricing periods of assets and liabilities by asset/liability category*.”
- (G) the unaudited consolidated half-year financial statements and the Risk Management Report of the Virgin Money Group, in respect of the six months ended 30 June 2018 set out on pages 36 to 67 and 17 to 34 of Virgin Money’s 2018 Interim Financial Report (the “**2018 Virgin Money Interim Financial Statements**”);
- (H) the following information set out in the Annual Report of Virgin Money containing the 2017 Audited Financial Statements of Virgin Money (the “**2017 Virgin Money Audited Financial Statements**”);
- (1) all text and tables under “*2017 key performance indicators*” on page 19;
  - (2) all text and tables under the heading “*Consolidated balance sheet*” on page 43;
  - (3) all text and tables under the heading “*Income benefitted from growth in asset balances*” on pages 45-46;
  - (4) all text and tables under “*Impairments reflected a resilient economy and rigorous credit risk management*” on page 47;
  - (5) all text and tables under the heading “*Mortgages and savings*” on pages 53–55;
  - (6) all text and tables under the heading “*Credit cards*” on pages 56–57;
  - (7) all text and tables under the heading “*Financial services*” on pages 58;
  - (8) all text and tables under the heading “*Credit risk*” on pages 134–156;
  - (9) all text and tables under the heading “*Market risk*” on pages 157–161;
  - (10) all text and tables under the heading “*Operational risk*” on page 162;
  - (11) all text and tables under the heading “*Conduct risk and compliance*” on page 163;
  - (12) all text and tables under the heading “*Concentration risk*” on pages 164–169;
  - (13) all text and tables under the heading “*Funding and liquidity risk*” on pages 170–181;
  - (14) all text and tables under the heading “*Consolidated income statement*” on page 200;
  - (15) all text and tables under the heading “*Note 1—Basis of preparation and accounting policies*” on pages 207–217;
  - (16) all text and tables under the heading “*Note 6: Operating expenses*” on pages 220-221;
  - (17) all text and tables under the heading “*Note 9: Taxation*” on pages 224–225;

- (18) all text and tables under the heading “*Note 31: Contingent liabilities and commitments*” on pages 240–241;
  - (19) all text and tables under the heading “*Alternative performance measures*” on page 262; and
  - (20) all text under the headings “*Glossary*” and “*Abbreviations*” on pages 263–266.
- (I) the following information set out in the Annual Report of Virgin Money containing the 2016 Audited Financial Statements of Virgin Money (the “**2016 Virgin Money Audited Financial Statements**”);
- (1) all text and tables under “*Financial highlights*” on pages 6–7;
  - (2) all text and tables under the heading “*Consolidated balance sheet*” on page 56;
  - (3) all text and tables under the heading “*Income benefitted from growth in asset balances*” on page 58;
  - (4) all text and tables under “*Impairments reflected rigorous credit risk management*” on pages 59–60;
  - (5) all text and tables under the heading “*Mortgages and savings*” on pages 63–65;
  - (6) all text and tables under the heading “*Credit cards*” on pages 66–68;
  - (7) all text and tables under the heading “*Financial services*” on pages 69–70;
  - (8) all text and tables under the heading “*Credit risk*” on pages 140–163;
  - (9) all text and tables under the heading “*Market risk*” on pages 164–168;
  - (10) all text and tables under the heading “*Operational risk*” on page 169;
  - (11) all text and tables under the heading “*Conduct risk and compliance*” on page 170;
  - (12) all text and tables under the heading “*Concentration risk*” on pages 171–176;
  - (13) all text and tables under the heading “*Funding and liquidity risk*” on pages 177–186;
  - (14) all text and tables under the heading “*Consolidated income statement*” on page 202;
  - (15) all text and tables under the heading “*Note 1—Basis of preparation and accounting policies*” on pages 209–220;
  - (16) all text and tables under the heading “*Note 6: Operating expenses*” on pages 225–226;
  - (17) all text and tables under the heading “*Note 9: Taxation*” on pages 230–231;
  - (18) all text and tables under the heading “*Note 32: Contingent liabilities and commitments*” on pages 246–247; and



- (19) all text and tables under the headings “*Alternative Performance Measures*”, “*Glossary*” and “*Abbreviations*” on pages 267–271.
- (J) the following information set out in the FCA approved prospectus dated 31 July 2018 in respect of the proposed acquisition of Virgin Money by the Issuer and the issue and admission of up to 548,000,000 new Issuer shares (the “**2018 Virgin Money Proposed Acquisition and Share Prospectus**”):
- (1) all text and tables under the heading “*Expected Timetable of Principal Events*” on pages 77-78;
  - (2) all text and tables under the heading “*Indicative Statistics*” on page 79;
  - (3) all text and tables under paragraph 1 “*Introduction and Summary of the Offer*” and paragraph 2 “*CYBG’s Background to and Reasons for the Offer*” under the heading “*Part I Information About the Offer*” on pages 81-85;
  - (4) all text and tables under the heading “*Part III Information on The Virgin Money Group*” on pages 106-109;
  - (5) all text and tables under the heading “*Part VIII Unaudited Pro Forma Financial Information*” on pages 460-467;
  - (6) all text and tables under the heading “*Part IX Supervision and Regulation*” on pages 468-480;
  - (7) all text and tables under the heading “*Part XII Quantified Financial Benefits Statement*” on pages 492-493;
  - (8) all text and tables under paragraph 13 “*CYBG Group Material Contracts*”, paragraph 14 “*Virgin Money Group Material Contracts*” and paragraph 19 “*Subsidiaries*” under the heading “*Part XIII Additional Information*” on pages 509-516; and
  - (9) all text and tables under the heading “*Part XIV Definitions*” on pages 525-536.
- (K) the following information set out in the circular from the Issuer to the Issuer’s shareholders dated 31 July 2018, in connection with the Offer (the “**Circular**”):
- (1) the letter from the Chairman of the Issuer as set out on pages 6 to 26 in the Circular including the notice convening the general meeting of the Issuer’s shareholders (the “**Chairman’s Letter**”); and
  - (2) the reconciliation of the 2018 Virgin Money Interim Financial Statements as set out on pages 35 and 36 in the Circular under Section B of the heading “*Part III Historical Financial Information relating to the Virgin Money Group*”.

The above documents may be inspected as described in paragraph 6 of “*General Information*” herein.

The documents listed above are available at <http://www.cybg.com/investor-centre/> and <https://uk.virginmoney.com/virgin/investor-relations/results-and-presentations/>. Any information incorporated by reference in the documents specified above does not form part of this Base Prospectus, except where such information is specifically incorporated by reference into this Base Prospectus. Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant for prospective investors

for the purposes of Article 5(1) of the Prospectus Directive or is covered elsewhere in this Base Prospectus. Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus 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 be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. Where only certain parts of a document are incorporated by reference, the non-incorporated parts of the document are either not relevant for investors or are covered elsewhere in this Base Prospectus.

The Issuer and Virgin Money have applied International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board and as adopted by the EU in the audited financial statements incorporated by reference above. The Issuer and Virgin Money have applied International Accounting Standards (“**IAS**”) as issued by the International Accounting Standards Board in the unaudited interim financial statements incorporated by reference above. A summary of the significant accounting policies for the Issuer is included in the 2017 Audited Financial Statements.

## **PRESENTATION OF FINANCIAL INFORMATION**

Unless otherwise stated in this Base Prospectus, financial information in relation to the Group or the Virgin Money Group referred to in this Base Prospectus has been extracted or derived without material adjustment from the 2016 Audited Financial Statements, 2017 Audited Financial Statements, 2018 Interim Financial Statements, 2018 Third Quarter Trading Update, 2016 Virgin Money Audited Financial Statements, 2017 Virgin Money Audited Financial Statements, 2018 Virgin Money Interim Financial Statements and the 2018 Virgin Money Proposed Acquisition and Share Prospectus or has been extracted or derived from those of the Group’s or the Virgin Money Group’s accounting records and its financial reporting and management systems that have been used to prepare that financial information. Investors should ensure that they read the whole of this Base Prospectus, including the information incorporated by reference herein, and not only rely on the key information or information summarised within it.

Where information has been extracted from the audited financial statements of the Group or the Virgin Money Group, the information is described as audited unless otherwise stated. Where information has been extracted from the unaudited interim financial statements of the Group or the Virgin Money Group, the information is described as unaudited unless otherwise stated.

## **ALTERNATIVE PERFORMANCE MEASURES**

Certain alternative performance measures (“**APMs**”) are included or referred to in this Base Prospectus (including in the information incorporated by reference). APMs are non-IFRS measures used to supplement disclosures prepared in accordance with other applicable regulations such as IFRS. The Issuer considers that these APMs provide useful information to enhance the understanding of its financial performance. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to other regulatory measures. An explanation of the components and calculation method of each such APM relating to the Issuer can be found at pages 249 to 252 (inclusive) of the 2017 Annual Report (also incorporated by reference). The Virgin Money Group also utilises a range of alternative performance measures to assess the Virgin Money Group’s performance. These are defined in the section entitled “*Alternative Performance Measures*” contained in the 2017 Virgin Money Audited Financial Statements, which is incorporated by reference into this Base Prospectus.

## FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression “**necessary information**” means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme, the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions described in this Base Prospectus as completed to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus.

In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus, unless the context requires otherwise.

## OVERVIEW OF THE PROGRAMME

*The following overview is a general description of the Programme, must be read as an introduction to this Base Prospectus, and is qualified in its entirety by the remainder of this Base Prospectus and the information incorporated by reference herein (and, in relation to any Tranche of Notes, the relevant Final Terms). Words and expressions defined in “Forms of the Notes” or “Terms and Conditions of the Notes” below shall have the same meanings in this Overview of the Programme.*

<b>Issuer:</b>	CYBG PLC
<b>Issuer Legal Entity Identifier (LEI):</b>	213800ZK9VGCYYR6O495
<b>Arranger:</b>	Morgan Stanley & Co. International plc
<b>Dealers:</b>	<p>Barclays Bank PLC</p> <p>Citigroup Global Markets Limited</p> <p>Credit Suisse Securities (Europe) Limited</p> <p>Lloyds Bank Corporate Markets plc</p> <p>Merrill Lynch International</p> <p>Morgan Stanley &amp; Co. International plc</p> <p>NatWest Markets Plc</p> <p>and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.</p>
<b>Trustee:</b>	Citicorp Trustee Company Limited
<b>Principal Paying Agent, Calculation Agent and Transfer Agent:</b>	Citibank, N.A., London Branch
<b>Registrar:</b>	Citigroup Global Markets Europe AG
<b>Admission to Listing and Trading:</b>	Applications have been made for Notes to be admitted during the period of 12 months from the date of approval of this Base Prospectus to listing on the Official List of the FCA and to trading on the Market.
<b>Clearing Systems:</b>	<p>For Registered Notes represented by a Restricted Global Certificate: Euroclear Bank SA/NV (“<b>Euroclear</b>”) and/or Clearstream Banking S.A. (“<b>Clearstream, Luxembourg</b>”) and/or The Depository Trust Company (“<b>DTC</b>”).</p> <p>For Notes other than Registered Notes represented by a Restricted Global Certificate: Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of such</p>

Notes, any other clearing system as may be specified in the relevant Final Terms.

**Programme Amount:**

Up to £10,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

**Issuance in Series:**

Notes will be issued in series (each a “**Series**”). Each Series may comprise one or more tranches (each a “**Tranche**”) issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.

**Final Terms or Drawdown Prospectus:**

Each Tranche of Notes will be issued on the terms set out in the Conditions as completed by the relevant Final Terms or Drawdown Prospectus.

**Forms of Notes:**

Notes may be issued in bearer form or in registered form.

***Bearer Notes***

Bearer Notes will be sold outside the United States to persons that are not U.S. persons in “offshore transactions” within the meaning of Regulation S. In respect of each Tranche of Bearer Notes, the Issuer will deliver a Temporary Global Note or (if TEFRA is specified as non-applicable or if the TEFRA C Rules are specified as applicable) a Permanent Global Note.

Each Temporary Global Note will be exchangeable for a Permanent Global Note. Each Permanent Global Note will be exchangeable for Notes in definitive bearer form (“**Definitive Notes**”) in accordance with its terms. Definitive Notes will, if interest-bearing, have interest coupons (“**Coupons**”) attached and, if appropriate, a talon (“**Talon**”) for further Coupons.

Each global note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and each global Note which is not intended to be issued in NGN form (a “**CGN**”), as specified in the relevant Final Terms, will be deposited on or before the relevant issue date therefore with a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg.

***Registered Notes***

Each Tranche of Registered Notes will be represented by either (A) Individual Certificates; or (B) one or more Unrestricted Global Certificates in the case of Registered Notes sold outside the United States to persons that are not U.S. persons in reliance on Regulation S and/or one or more Restricted Global Certificates in the case of Registered Notes sold to QIBs in reliance on Rule 144A.

Each Note represented by an Unrestricted Global Certificate will either be: (A) in the case of a Global Certificate which is not to be held under the NSS, registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common depositary and/or the sub-custodian; or (B) in the case of a Global Certificate to be held under the NSS, registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Note represented by a Restricted Global Certificate will be: (A) deposited with, and registered in the name of, a nominee, common depositary or common safekeeper for Euroclear or Clearstream, Luxembourg; or (B) registered in the name of Cede & Co. as nominee for DTC and the relevant Restricted Global Certificate will be deposited on or about the issue date with the DTC Custodian. Beneficial interests in Notes represented by a Restricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by such clearing systems and their respective participants.

**Currencies:**

Notes may be denominated in pounds sterling, euro, U.S. dollars or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

**Status of the Senior Notes:**

The Senior Notes (and the Coupons relating thereto, if any) constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer which rank *pari passu* without any preference among themselves and, in the event of a Winding-Up, will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law.

**Status of the Tier 2 Capital Notes:**

The Tier 2 Capital Notes (and the Coupons relating thereto, if any) constitute direct unsecured and subordinated obligations of the Issuer ranking *pari passu* without any preference among themselves.

On a Winding-Up, claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed), Holders of the

Tier 2 Capital Notes and any related Coupons against the Issuer in respect of or arising under the Tier 2 Capital Notes and any related Coupons (including any damages awarded for breach of any obligations in respect of the Tier 2 Capital Notes or any related Coupons) will be subordinated in the manner provided herein and in the Trust Deed to the claims of all Senior Creditors but shall rank:

- (A) at least *pari passu* with all claims of holders of all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith; and
- (B) in priority to the claims of holders of:
  - (1) all obligations of the Issuer which rank or are expressed to rank, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which rank or are expressed to rank, junior to the claims in respect of the Tier 2 Capital Notes and any related Coupons, including (without limitation) obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith; and
  - (2) all classes of share capital of the Issuer.

**Issue Price:**

Notes may be issued at any price. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealers at the time of issue in accordance with prevailing market conditions.

**Specified Denominations:**

The Notes may be issued in such denominations as may be specified in the relevant Final Terms, save that no Notes may be issued under the Programme which have a denomination of less than €100,000 (or its equivalent in any other currency at the relevant Issue Date).

**Maturities:**

Any maturity, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Any Notes having a maturity of less than one year must (A) have a minimum redemption value of £100,000 (or the equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring,

holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (B) be issued in other circumstances which do not constitute a contravention of Section 19 of the FSMA by the Issuer.

**Interest:**

Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate, a resetting rate or a floating rate (or a fixed/floating rate or floating/fixed rate).

**Fixed Rate Notes:**

Fixed Rate Notes will bear interest at the fixed rate(s) of interest specified in the relevant Final Terms. Such interest will be payable in arrear on the Interest Payment Date(s) specified in the relevant Final Terms or determined pursuant to the Conditions.

**Reset Notes:**

Reset Notes will, in respect of an initial period, bear interest at the Initial Rate of Interest specified in the relevant Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) specified in the relevant Final Terms by reference to a mid-swap rate for the relevant Specified Currency or a benchmark gilt rate, and for a period equal to the relevant reset period, as adjusted for any applicable margin, in each case as may be specified in the relevant Final Terms. Such interest will be payable in arrear on the Interest Payment Date(s) specified in the relevant Final Terms or determined pursuant to the Conditions.

**Floating Rate Notes:**

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (A) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.; or
- (B) by reference to a reference rate appearing on the agreed screen page of a commercial quotation service,

in any such case as adjusted for any applicable margin specified in the relevant Final Terms.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate, or both.

**Zero Coupon Notes:**

Zero Coupon Notes may be issued at their principal amount or at a discount to their principal amount and will not bear interest.



<b>Redemption:</b>	Unless previously redeemed or purchased and cancelled, Notes will be redeemed at their Final Redemption Amount (as specified in the relevant Final Terms) on the Maturity Date.
<b>Optional Redemption:</b>	<p>Notes may be redeemed before the Maturity Date at the option of the Issuer (as described in Condition 9(B) (<i>Redemption at the option of the Issuer</i>)), to the extent (if at all) specified in the relevant Final Terms, subject to obtaining the Competent Authority's and/or the Resolution Authority's prior permission for redemption (if, and to the extent, such permission is then required by the Capital Regulations) and complying with certain pre-conditions (see Condition 9(L) (<i>Restriction on Early Redemption or Repurchase of the Notes</i>)).</p> <p>To the extent (if at all) specified in the relevant Final Terms, Senior Notes may be redeemed before the Maturity Date at the option of the Noteholders (as described in Condition 9(F) (<i>Redemption at the option of Noteholders</i>)).</p>
<b>Early Redemption:</b>	Except as described in " <i>Optional Redemption</i> " above, early redemption will only be permitted (A) for tax reasons, as described in Condition 9(C) ( <i>Redemption for Tax Event</i> ); (B) in the case of Tier 2 Capital Notes, for regulatory reasons, as described in Condition 9(D) ( <i>Redemption for Regulatory Event</i> ); and (C), in the case of Senior Notes (if so specified in the relevant Final Terms) if the Notes are fully or (if so specified in the relevant Final Terms) partially excluded from the Issuer's and/or the Group's minimum requirements for (1) own funds and eligible liabilities and/or (2) loss absorbing capacity instruments, as described in Condition 9(E) ( <i>Redemption for Loss Absorption Disqualification Event</i> ), in each case subject to obtaining the Competent Authority's and/or the Resolution Authority's prior permission for redemption (if, and to the extent, such permission is then required by the Capital Regulations) and complying with certain pre-conditions (see Condition 9(L) ( <i>Restriction on Early Redemption or Repurchase of the Notes</i> )).
<b>Negative Pledge:</b>	None.
<b>Cross Default:</b>	None.
<b>Taxation:</b>	All payments of principal and interest in respect of the Notes and the Coupons 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 present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the

Couponholders 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 12 (*Taxation*).

**Substitution:**

Subject to Condition 17(D) (*Competent Authority Notice or Consent*), the Trustee may in certain circumstances, without the consent of the Noteholders, agree to the substitution of Issuer, as described in Condition 17(C) (*Substitution*).

**Governing Law:**

English Law.

**Ratings:**

**As at the date of this Base Prospectus, the Long Term Issuer Default Rating assigned to the Issuer by Fitch was BBB+ and the Issuer Credit Rating assigned to the Issuer by S&P was BBB-. Fitch and S&P are established in the EEA and registered under the CRA Regulation.**

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, the applicable rating(s), which will not necessarily be the same as the ratings applicable to the Issuer, will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (A) issued by a credit rating agency established in the EEA and registered under the CRA Regulation; (B) issued by a credit rating agency which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation; or (C) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation, will be disclosed in the Final Terms.

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

**Selling Restrictions:**

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the EEA, the United Kingdom, Japan and Hong Kong, see "*Subscription and Sale*" below.

## RISK FACTORS

*Prospective investors should consider carefully the risks set forth below and the other information contained in this Base Prospectus prior to making any investment decision with respect to the Notes. Each of the risks highlighted below could have a material adverse effect on the Issuer's or the Group's business, operations, financial condition or prospects and, if the Offer is completed, the Combined Group and the industry in which they operate which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Notes. In addition, each of the risks highlighted below could adversely affect the trading price of the Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Issuer and the Group face, and if the Offer is completed, the Combined Group will face, many of which relate to events and depend on circumstances that may or may not occur in the future. The Issuer has described only those risks relating to its operations that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.*

*Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this Risk Factors section.*

### **1. RISKS RELATING TO THE GROUP AND/OR THE VIRGIN MONEY GROUP AND, IF THE OFFER IS COMPLETED, THE COMBINED GROUP**

#### **1.1 The Group is and, following Completion, the Combined Group will be subject to risks arising from macro-economic conditions in the UK or globally**

The Group's business is and, following completion of the Offer ("**Completion**"), the Combined Group's business will be, 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 and/or the Virgin Money Group and, if the Offer is completed, the Combined 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 and, following Completion, the Combined Group's customer base will be predominantly based in the UK, they 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 their 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 and, following Completion, the Combined Group's business, results of operations, financial condition and prospects.

The Group's operations are and, following Completion, the Combined Group's operations will be focussed in their 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 and, following Completion, the Combined Group or adversely impact the financial performance and prospects of their customers. Another referendum on Scottish independence which results in Scotland leaving the UK would exacerbate these issues and impact the Group's and, following Completion, the Combined 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 and, following Completion, the Combined 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 June 2018, the European Central Bank announced that it would be reducing net asset purchases from €30 billion a month to €15 billion a month from September 2018, with its quantitative easing programme ending completely at the end of December 2018. The US Federal Reserve Board of Governors is also reducing the size of its asset purchases and the BoE brought its quantitative easing programme to a standstill in 2017. An earlier than expected increase in interest rates or the divergence in the timing of tightening of monetary policy by the US Federal Reserve Board of Governors and other central banks, including the BoE and the European Central Bank, or the reduction in and/or unwinding of the US Federal Reserve Board of Governors', the European Central Bank's and/or the BoE's quantitative easing programmes may also result in volatility in capital flows, adverse fluctuations in currency markets, a suppression of demand and a reduction in the availability of credit, which may limit economic recovery in the UK or elsewhere.

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

## **1.2 The Group and, following Completion, the Combined Group will be subject to risks related to volatility in UK house prices**

The Group's primary activity is and, following Completion, the Combined Group's primary activity will be 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 and, following Completion, the Combined Group's net interest income will be derived from interest paid on their mortgage portfolio. As at 31 March 2018, 73.7 per cent. of the Group's customer loans by value were mortgages (both owner-occupied and buy-to-let). The Virgin Money Group's core lending activity is the provision of residential mortgages to individuals secured on residential properties located in the UK and represented 91.6 per cent. of gross loans and advances to customers as at 31 December 2017. Any deterioration in the quality of the Group's and, following Completion, the Combined Group's mortgage portfolio could have a material adverse effect on their 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 and, following Completion, the Combined Group. Higher impairment provisions could reduce their capital and their 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 and following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's ability to grow their 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 Combined Group’s exposure to the TFS, please refer to the risk factor entitled *“The Group is and, following Completion, the Combined Group, will be 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. As at 31 March 2018, 32 per cent. of the Group’s outstanding mortgage balances were buy-to-let loans and 92 per cent. of such buy-to-let loans were on an interest-only basis. For the Virgin Money Group, the proportion of gross lending in the year ended 31 December 2017 to buy-to-let customers was 19 per cent. 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 and, following Completion, the Combined Group’s buy-to-let mortgage book could deteriorate, which in turn could have a material adverse effect on the Group’s and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group’s business, financial condition, results of operations and prospects.

### **1.3 The Group is and, following Completion, the Combined Group will be exposed to risks relating to the supply and affordability of property in the UK**

The Group’s and, following Completion, the Combined 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 Bank of England committee responsible for ensuring financial stability. For the Group and, following Completion, the Combined Group to maintain and grow their 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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. Whilst house prices are not expected to fall significantly over the short to medium term, 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business and potentially on its ability to implement its medium term growth strategy.

The Group's and, following Completion, the Combined 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 may reduce the demand for buy-to-let mortgages.

#### **1.4 The Group is and, following Completion, the Combined Group will be subject to risks associated with interest rate levels and volatility**

Interest rates, which are impacted by factors outside of the Group's and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group.

The Group raises funding from a number of wholesale sources, including secured funding through RMBS and covered bond programmes, senior debt from the 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 and, following Completion, will impact the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's net interest income and margins. As at the date of this Base Prospectus, 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 and, following



Completion, the Combined 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 and, following Completion, the Combined Group may not be able to re-price their floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short term, which may negatively affect their net interest income and net interest margin.

As at 31 March 2018, 29 per cent. of the Group's customer deposits were variable rate savings accounts, which together with other floating rate liabilities exposes the Group and, following Completion, the Combined Group to the risk of increased costs if interest rates increase. In an increasing interest rate environment, the Group and, following Completion, the Combined Group may also be more exposed to re-pricing of their liabilities than competitors with a lower proportion of variable rate deposits or other liabilities.

If the Group and, following Completion, the Combined Group are unable to manage their 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 their 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**"). On 29 March 2017, the UK Government exercised its right under Article 50 of the Treaty on the EU to leave the EU. At this stage, both the terms and the timing of the UK's exit from the EU are unclear, and it could take considerable time to negotiate, draft and approve a withdrawal agreement in accordance with Article 50 of the Treaty on the EU. Moreover, 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group can be expected. The Issuer cannot predict what any such changes will be. This could

increase uncertainty and compliance costs for the Group and, following Completion, the Combined 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 their 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 have not yet begun. There can be no assurance that there will be any such arrangements concluded and, if they are concluded, on what terms. Following Completion, the Combined 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. According to the Financial Services Register, 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 Combined Group's ability to carry out business in EEA countries. The Combined Group would be impacted by this 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 and, following Completion, the Combined Group will be 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 S&P, Fitch and Moody's Investors Service Ltd. S&P and Fitch have a negative outlook 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, following Completion, the Combined Group entities, which may increase their borrowing costs or challenge their access to wholesale funding from capital markets.

**1.6 The Group and, following Completion, the Combined Group face risks associated with the implementation of their medium term growth strategy**

The Group and, following Completion, the Combined Group face a variety of risks associated with the implementation of their medium term growth strategy. A failure to achieve their 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 and, following Completion, the Combined Group's ability to attract and retain customers, their reputation and their 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 and, following Completion, the Combined Group's strategy to drive sustainable customer growth in their loan portfolio and deposit base*

In seeking to grow their mortgage, SME lending and unsecured personal lending books, the Group is and, following Completion, the Combined Group will be susceptible to the risk of reduced asset quality and increased impairment losses in their customer loan portfolio due to them broadening their target market (including to meet post-Completion targets) or loosening their underwriting or lending criteria in order to attract additional customers, or applying a broader interpretation of existing underwriting or lending criteria. As a result of the Offer, the Group may also inherit a higher risk portfolio than it currently has. The Group and, following Completion, the Combined Group are also subject to the risk of increased competition, including competition based on price, in seeking to grow their customer loan portfolio, which could adversely affect the Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group fail to manage these risks adequately, it could result in legal or regulatory action against the Group and, following Completion, the Combined Group, reputational damage to their brands and adverse impacts on the implementation of their medium term growth strategy.

The Group's and, following Completion, the Combined Group's continued ability to maintain and grow their 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 and, following Completion, the Combined Group considers to be commercially acceptable. A key component of the Group's and, following Completion, the Combined Group's medium term growth strategy is to grow their retail and SME deposits, and in particular to increase the volume of new PCA and BCA accounts, in order to fund the growth of their 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 and, following Completion, the Combined Group's control, and accordingly they may need to increase the interest rates they offer 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 and, following Completion, the Combined 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 their planned medium term growth.

*Risks associated with the Group's and, following Completion, the Combined Group's digital strategy*

A core part of the Group's and, following Completion, the Combined Group's medium term growth strategy is strengthening their 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 their operating platform to drive efficiency, process simplification and customer acquisition. If the Group or, following Completion, the Combined 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 and, following Completion, the Combined Group's business, results of operations, financial condition and prospects could be materially adversely affected. The Group and, following Completion, the Combined Group also may be required to make further expenditure or investments (such as marketing, customer incentives or pricing changes) in order to achieve their 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 them to adapt their plans and/or revise their strategy, causing delay in their implementation or resulting in additional costs. There is a risk that the execution of the Group's and, following Completion, the Combined Group's digital strategy will increase the demands on their 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 and, following Completion, the Combined Group's business, results of operations, financial condition and prospects. Any failure to successfully implement their 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group are 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 and, following Completion, the Combined Group's digital strategy, which could lead to a material adverse effect on the Group's and, following Completion, the Combined Group's business, results of operations, financial condition and prospects.

*Execution and other risks associated with the Group's and, following Completion, the Combined Group's medium term growth strategy*

The Group's and, following Completion, the Combined Group's ability to implement their medium term growth strategy successfully is subject to execution risks, including those relating to the management of their cost base and limitations in their management and operational capacity. The implementation of their 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 and, following Completion, the Combined Group may fail to achieve management's guidance, targets or expectations in respect of the Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group's asset quality, cost-to-income, jaws, CET1 capital and/or LDR, or other financial or key performance indicators. Following Completion, 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 and the Combined 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 their 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 their medium term growth strategy for the foregoing could have a material adverse effect on the Group's and, following Completion, the Combined Group's business, results of operations, financial condition and prospects.

**1.7 The Group is and, following Completion, the Combined Group will be subject to risks associated with compliance with a wide range of laws and regulations**

The Group's operations are and, following Completion, the Combined Group's operations will be heavily regulated and they 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 and, following Completion, the Combined 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 following Completion, the Combined Group, and their 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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, following Completion, the Combined Group and/or their 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 and, following Completion, the Combined Group, see “*Regulatory Risks*” below. All of these issues could have a negative effect on the Group’s and, following Completion, the Combined Group’s reputation and the confidence of their customers in the Group and, following Completion, the Combined Group, as well as taking a significant amount of management time and resources away from the execution of the Group’s and, following Completion, the Combined Group’s strategy and the operation of their business.

The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group may, for similar reasons, reimburse counterparties for their losses even in situations where there are no litigation proceedings and the Group and, following Completion, the Combined Group do not believe that they are legally compelled to do so. Failure to manage these risks adequately could have a material adverse effect on the Group’s and, following Completion, the Combined Group’s, reputation, business, results of operations, financial condition and prospects.

#### **1.8 The reputation of the Group and, following Completion, the Combined Group and their brands (including the “Virgin Money” brand) 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, following Completion, the Combined Group will have, 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 and, following Completion, the Combined Group or their brands could have a

material adverse effect on their business, results of operations, financial condition and prospects.

The Group's and, following Completion, the Combined Group's brands may be damaged by the actions, behaviour or performance of their 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 and, following Completion, the Combined Group are 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 and, following Completion, the Combined Group held by the public, shareholders, investors, customers, employees, regulators or rating agencies. A risk event itself may expose the Group and, following Completion, the Combined 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 or, following Completion, the Combined 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 Completion, the Combined Group will be 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. Following completion, the Combined 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 Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group, which could adversely impact the cost of funding their operations and their financial condition.

#### **1.9 The Group and, following Completion, the Combined Group, may lose the right to use the "Virgin" and "Virgin Money" brands (which it will not own)**

Following Completion, in order for the Combined Group to use the "Virgin" and "Virgin Money" names and brands (which it will not own), the Combined Group will be 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 will have 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, at least 80 per cent. of the Combined 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 Combined 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 Combined Group’s business, financial condition, results of operations and/or prospects. Further information on the Brand Licence Agreement is set out in paragraph 13.3 of Part XIII (*Additional Information*) of the 2018 Virgin Money Proposed Acquisition and Share Prospectus, which is incorporated by reference in this Base Prospectus.

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 Combined 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 Completion**

As, following the rebranding period, at least 80 per cent. of the Combined 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 existing “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 this Base Prospectus, 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 The Group and, following Completion, the Combined Group face risks from the highly competitive environment in which they operate**

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 and, following Completion, the Combined Group will operate are generally mature, growth by any bank typically requires winning market share from competitors.

The Group and the Virgin Money Group face 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, and following Completion, the Combined Group of disintermediation by third parties. In the UK, open banking regulation requires the nine largest banks (which does not include the Issuer or Virgin Money, and will not include the Combined Group) to provide access to certain information via a standardised set of application programming interfaces ("**APIs**"). It also introduces a risk for the Group, and following Completion, the Combined 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 and, following Completion, the Combined Group to introduce new products and services to keep pace with industry developments and meet customer expectations. They are 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 and, following*

*Completion, the Combined Group are 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 and, following Completion, the Combined Group's financial and operational performance may be materially adversely affected by an inability to keep pace with industry trend and customer expectations.*

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

The credit card issuing business is highly competitive. The Group and the Virgin Money Group compete, and following Completion, the Combined Group will compete 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 and the Virgin Money 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, or following Completion, the Combined Group, are unable to compete successfully, the Group's and, following Completion, the Combined Group's business, financial condition, results of operations and/or prospects could be materially adversely affected.

**1.12 The Group may fail to be accepted as a participant in the Incentivised Switching Scheme, successfully acquire RBS SME customers through the Incentivised Switching Scheme, and/or receive funds from the Capability and Innovation Fund, 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. It is currently expected that in November 2018, eligible “challenger banks” can apply to participate in an incentivised switching scheme (the “**Incentivised Switching Scheme**”) through which certain RBS SME customers (former W&G customers) will be 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, it is currently expected that in November and December 2018, 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), will be 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. Applicant firms will be required to set out how potential investments would improve their own SME banking proposition and enhance competition across the wider UK SME banking market.

The Group intends to play a material part in both the Incentivised Switching Scheme and to bid for a ‘Pool A’ award under the Capability and Innovation Fund (which has three amounts available: £60 million; £100 million; and £120 million). There is no guarantee that the Group and, following Completion, the Combined Group, will be accepted as a participant in the Incentivised Switching Scheme, successfully acquire large numbers of RBS SME customers through the Incentivised Switching Scheme, and/or receive funds from the Capability and Innovation Fund. 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 and, following Completion, the Combined Group to be accepted as a participant in the Incentivised Switching Scheme, 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 and, following Completion, the Combined 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. Following Completion, the Combined Group may continue to incur such costs. There is no guarantee that the Group and, following Completion, the Combined Group, will recover these costs through the Incentivised Switching Scheme and/or the Capability and Innovation Fund. Such costs could therefore have a material adverse effect on the Group’s and, following Completion, the Combined Group’s business, results of operations, financial condition and prospects.

#### 1.13 **The Group is and, following Completion, the Combined Group, will be subject to risks relating to the availability of liquidity and funding at a commercially acceptable cost**

Funding risk is the risk that the Group and, following Completion, the Combined Group are unable to raise short and/or long-term funding at a commercially acceptable cost in the retail and wholesale markets to support their 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 their securities or other credit exposures to them may adversely affect the Group's and, following Completion, the Combined Group's ability to access funds or require them 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 their 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, a covered bond programme and the 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. The Virgin Money Group also sources a proportion of its funding in the wholesale markets, primarily through RMBS securitisations, a global medium term note programme and a regulated covered bond programme (although the Virgin Money Group has not yet issued any covered bonds under such programme). Both the Group and the Virgin Money Group have also drawn funding from the BoE's TFS, with TFS funding comprising in aggregate £8.7 billion, which represents 11 per cent. of total funding for the Combined Group and will mature in 2021–2022.

As part of its funding plan, the Group and, following Completion, the Combined Group intends to continue to access the wholesale funding markets following Completion. 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 and, following Completion, the Combined Group may incur additional costs and may be unable to successfully deliver their 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 and, following Completion, the Combined Group's business, financial position and results of operations, depending on their funding position at that time.

Any downgrade in the credit rating of the Issuer, the Group, any member of the Group, and, following Completion, the Combined Group's RMBS issuance vehicles or their respective securities, or a downgrade in the sovereign rating of the UK, may increase the Group's and, following Completion, the Combined Group's borrowing costs or limit their access to the capital markets, which may increase the re-financing risk, and, consequently, have a material adverse effect on their 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, the Group's and, following Completion, the Combined Group's secured funding programmes, the UK banking sector or the UK Government may have an adverse effect on the Group's and, following Completion, the Combined 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. As at 31 March 2018, the Group's LDR was 115 per cent. Medium-term growth in the Group's and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's net interest margin and affect their results of operations, and a lack of availability of deposit funding could have a material adverse effect on their future growth.

Any loss in consumer confidence in the Group and, following Completion, the Combined Group could significantly increase the amount of deposit withdrawals that may occur in a short space of time. Should they experience an unusually high and/or unforeseen level of deposit withdrawals, the Group and, following Completion, the Combined 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 their 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's ability to deliver their growth strategy and have a material adverse effect on their business, financial condition, results of operations and prospects.

#### **1.14 The amount and quality of the Group's and, following Completion, the Combined Group's capital is subject to regulatory requirements and market influence**

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

The Combined 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. The Group is seeking the IRB, which the Issuer believes will enhance the competitiveness of the Group in relation to its capital requirements. 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, which could, in turn, affect their capacity to pay future dividends or implement their 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 Tier 2 Capital 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 and, following Completion, the Combined Group may also experience an increased demand for capital as a result of regulatory requirements. For further information, see “—Regulatory risks—The Group and, following Completion, the Combined Group are 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 and, following Completion, the Combined 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 will adopt from 1 October 2018. IFRS 9 will require the Group to move from an incurred loss model to an expected loss model requiring the Group and, following Completion, the Combined Group to recognise not only credit losses that have already occurred but also losses that are expected to occur in the future. IFRS 9 may lead to a one-off increase in impairment allowances for certain financial assets in their balance sheet at the time of adoption, and, depending on its interpretation by the relevant regulators, could lead to a negative impact on their regulatory capital position. In addition, it is expected that the complexity of the Group’s and, following Completion, the Combined 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.

The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group are subject to substantial and changing prudential regulation” on which the Basel Committee on Banking Supervision (the “**Basel Committee**”) is consulting.

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 and, following Completion, the Combined Group may be required to increase their capital held. If they are unable to do so, their 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 Tier 2 Capital Notes, may experience their holdings becoming cancelled or diluted, and may not receive any compensation for their losses, see “—Regulatory risks—The Group and, following Completion, the Combined Group are subject to substantial and changing prudential regulation” below.

**1.15 The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group face 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, following Completion, the Combined 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, and following Completion, the Combined 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 pricing levels 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 experienced a sustained period of elevated PPI complaints in the six months to 31 March 2018. As a result of the announcement of the time bar on new PPI complaints and the requirement for a customer contact exercise in respect of previously rejected complainants who are now eligible to complain in light of the case of *Plevin v Paragon Finance* (see “—*Regulatory risks—The Group is and, following Completion, the Combined Group will be subject to substantial conduct regulations and regulatory oversight in respect of conduct issues*” (*PPI final deadline and guidance on “Plevin” cases*) for further detail on this), 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 unaudited accounts for the six months to 31 March 2018, the Group increased its provisions for legacy PPI costs by £350 million, fully utilising the remaining undrawn amount of £148 million of the Capped Indemnity and recognising a charge of £202 million (pre-tax). The Group also recognised additional costs of £18 million for other less significant conduct related matters.

Notwithstanding the fact that the Capped Indemnity has now been fully utilised, £645 million (being £497 million balance on the account at 31 March 2018 plus the remaining £148 million subsequently drawn down) of 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 this Base Prospectus, 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 and, following Completion, the Combined Group will be subject to further claims relating to historic or future conduct matters which amount to a material capital exposure for the Group and, following Completion, the Combined Group. Exposure to such claims may exceed the provisions of the Group and, following Completion, the Combined Group, which could have a material adverse effect on the Group and, following Completion, the Combined Group's balance sheet. Such claims could therefore have a material adverse effect on the Group's and, following Completion, the Combined Group's business, results of operations, financial condition and prospects.

It is also possible that two recent developments may increase the costs associated with PPI-related complaints generally. In the first development, a decision of the Manchester County Court, claimants in a PPI claim were awarded an amount that exceeded the amount they would have been awarded under relevant FCA guidelines. The second development, an FCA consultation paper, proposes guidelines that 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 these developments remains to be seen.

**1.16 The Group is and, following Completion, the Combined Group will be subject to risks associated with their dependence on mortgage intermediaries and third-party service providers for certain functions**

The Group depends and, following Completion, the Combined Group will depend 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 and, following Completion, the Combined Group will rely on the continued availability and reliability of these service providers. If their 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, they will be required to identify and implement alternative arrangements and they 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 Completion, the Combined 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 and, following Completion, the Combined Group's operations and ability to service customers and could have a material adverse financial or reputational impact on them. It may result in a higher risk premium being applied to the Group and, following Completion, the Combined Group, and adversely impact the cost of funding their operations, or their financial condition and could give rise to claims by customers for financial loss experienced and/or regulatory sanctions.

In maintaining and growing their mortgage portfolio, the Group relies and, following Completion, the Combined Group will rely on a number of intermediaries in the mortgage lending market, which exposes them 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 or, following Completion, the Combined Group's lending volume. The Group is and, following Completion, the Combined Group will also be exposed to the risk that their 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 or, following Completion, the Combined Group. In addition, the intermediaries' incentives may not always align with the Group's or following Completion, the Combined Group's, which could lead to a deterioration in the quality and performance of the Group's or the Combined Group's mortgage book. As the Group and, following Completion, the Combined Group seek to actively grow the volume of mortgages introduced by intermediaries, their 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 or, following Completion, the Combined 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 or, following Completion, the Combined Group. Any of these factors could have a negative impact on the Group's or, following Completion, the Combined 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 or, following Completion, the Combined Group's mortgage products, the Group's or, following Completion, the Combined Group's brands and/or reputation could be harmed as a result. Reputational damage to the Group's and, following Completion, the Combined Group's brands caused by the failure of a third-party supplier may also adversely impact the Group's and, following Completion, the Combined Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

**1.17 The Group's and, following Completion, the Combined Group's reliance on transitional services arrangements with NAB for treasury services exposes the Group and, following Completion, the Combined Group to a range of potential operational and regulatory risks**

In connection with the Group's demerger from NAB, on 29 January 2016, Clydesdale Bank entered into an arm's-length transitional services agreement ("TSA") with NAB for

the continued provision of a range of certain key services to the Group on a transitional basis. Whilst most services provided under the TSA have now been cancelled, NAB continues to provide treasury services to the Group. The TSA expires in December 2018, subject to the exercise of any extension provisions in the TSA.

While NAB is bound by arm's-length contractual obligations under the TSA (including with respect to service performance, recovery of service, change management, confidentiality/data security and disaster recovery), events impacting NAB's ability to honour its contractual commitments to the Group under the TSA, such as human error, unauthorised access, events of force majeure, insolvency or other triggers for intervention by prudential authorities or any failure by NAB to procure continued service performance from any of NAB's sub-contractors, or any failure of the underlying systems or infrastructure used by NAB or its sub-contractors, could result in significant disruptions (including in the delivery of services to the Group) and costs that adversely affect the overall operational performance, financial performance, financial position or prospects of the Group's and, following Completion, the Combined Group's business, as well as harm the Group's and, following Completion, the Combined Group's reputation and/or attract increased regulatory scrutiny.

**1.18 The Group and, following Completion, the Combined Group are 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, results of operations, financial condition and prospects. Retail and SMEs lending activities account for most of the Group's and, following Completion, the Combined Group's credit risk. As at 31 March 2018, mortgage lending comprised 73.7 per cent. of the Group's customer loan portfolio, SME loans comprised 22.7 per cent. and unsecured personal lending (including personal loans, credit cards and overdrafts) comprised the balance. At 31 December 2017, retail secured credit accounted for 83 per cent. of the Virgin Money Group's maximum exposure to credit risk, before taking into account any collateral held or other credit enhancements.

Other sources of credit risk include but are not limited to the extension of credit commitments and guarantees, the holding of investments for liquidity purposes (including UK gilts), inter-bank transactions, letters of credit and trade financing, derivative transactions entered into for hedging purposes, foreign exchange transactions, placing of deposits, acceptances and the settlement of transactions. As at 31 March 2018, the Group's maximum exposure to credit risk was £49,299 million.

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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 their 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, results of operations, financial condition and prospects.

**1.19 The Group and, following Completion, the Combined Group are 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 and, following Completion, the Combined Group will provide mortgages to customers to enable them to purchase property for owner occupation. Such mortgages may be provided on a capital repayment basis, where the loan is repaid during its life, or on an interest-only basis, in which case the customer pays interest during the term of the mortgage loan with the principal balance being required to be repaid in full at maturity. As at 31 March 2018, capital repayment mortgages comprised 71 per cent. or £11,627 million of the Group's owner-occupied mortgage loan portfolio and interest-only loans comprised 29 per cent., or £4,747 million. As at 31 December 2017, capital repayment mortgages comprised 71.3 per cent. or £24,003 million of the Virgin Money Group's owner-occupied mortgage loan portfolio and interest-only loans comprised 25.6 per cent., or £8,627 million. 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 and, following Completion, the Combined Group may lack information to accurately evaluate the related repayment risk. As a result, they may have reduced visibility of future repayment issues in respect of their interest-only residential mortgages, which could limit the Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group are 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 and, following Completion, the Combined Group provide 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 and, following Completion, the Combined Group's owner-occupied mortgage portfolio which could have

a material adverse effect on their 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.

**1.20 Concentration of credit risk could increase the Group's and, following Completion, the Combined Group's potential for significant losses**

As at 31 March 2018, 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. Mortgage lending in London and the South of England accounted for approximately 58 per cent. of total lending as at 31 March 2018. As of 31 December 2017, 53 per cent. of the Virgin Money Group's mortgages were concentrated in Greater London and the South East. 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 and, following Completion, the Combined Group have significant business or assets, concentrations of credit risk could cause them to experience greater losses than some competitors.

In addition, the Group faces concentration risks relating to its agricultural lending, which as at 31 March 2018 amounted to approximately 20 per cent. of the Group's total business lending and 4.5 per cent. of the Group's total customer loans. 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, results of operations, financial condition and prospects.

**1.21 The Group is and, following Completion, the Combined Group will be exposed to risks associated with their 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 and, following Completion, the Combined Group's ATMs or a failure of online or mobile banking platforms could have a significant negative effect on their 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group may need to upgrade their IT systems and staffing to meet such demand, which may cause delays to customers and adversely affect their 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

The Combined Group will also face risks related to the integration of the Group's and the Virgin Money Group's IT systems. For more details, please refer to the risk factor entitled *"Integration of the Virgin Money Group into the Group may be more time consuming and costly than expected and unforeseen difficulties may arise"*.

#### **1.22 The Group and, following Completion, the Combined Group are exposed to risks associated with cyber-enabled crime and fraud**

The Group is and, following Completion, the Combined Group will be subject to the risk of actual or attempted IT security breaches from parties with criminal or malicious intent. Should their 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 their 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, following Completion, the Combined 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 and, following Completion, the Combined Group cannot be certain that their 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 and, following Completion, the Combined Group's operational performance and reputation. The Group and, following Completion, the Combined Group's strategy to increase their digital presence may expose the Group and, following Completion, the Combined Group to increased risks associated with cyber-enabled crime and fraud. For more information on their digital strategy, please refer to risk factor entitled *"Risks associated with the Group's and, following Completion, the Combined Group's digital strategy"*.

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

**1.23 The Group and, following Completion, the Combined Group are subject to risks associated with their hedging and treasury operations, including potential negative fair value adjustments**

The Group and, following Completion, the Combined Group face risks related to their 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 their hedging strategies are not effective, the Group and, following Completion, the Combined 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 and, following Completion, the Combined Group's capital held.

Through its treasury operations, the Group holds liquid assets portfolios potentially exposing the Group and, following Completion, the Combined 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 and, following Completion, the Combined Group's liquid assets portfolios could fall and cause the Group and, following Completion, the Combined Group to record mark to market losses. In a distressed economic or market environment, the fair value of certain of the Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group's exposures, which could have a material adverse effect on the Group's and, following Completion, the Combined 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.

**1.24 The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group 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 their credit, trading, clearing or

other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Group and, following Completion, the Combined 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 and, following Completion, the Combined Group’s ability to raise new funding and on their 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 and, following Completion, the Combined Group face 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 and, following Completion, the Combined Group.

**1.25 A downgrade in the credit rating of the Issuer, Clydesdale Bank, the Group’s and, following Completion, the Combined Group’s secured funding programmes, the UK banking sector or the UK Government may have an adverse effect on the Group’s and, following Completion, the Combined 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, following Completion, the Combined 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 and, following Completion, the Combined Group’s financial strength and outlook, the assumed level of UK Government support for the Group and, following Completion, the Combined 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, Clydesdale Bank, Virgin Money or their securities, or the UK banking sector generally, or a downgrade in the sovereign rating of the UK could:

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

- (e) limit the Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group (including under the Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

**1.26 The Group's and following Completion, the Combined Group's risk management policies and procedures may not be effective in protecting them against all the risks faced by their business, and any failure to manage properly the risks that they face could harm the Group and, following Completion, the Combined Group and their 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 and, following Completion, the Combined Group face in their business activities. There is a risk that the Issuer's existing policies may not adequately cover the nature of the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

**1.27 The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group to liability**

The Group is and, following Completion, the Combined Group will be subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit them, their 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 and, following Completion, the Combined Group cannot predict the nature, scope or effect of future regulatory requirements to which they 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 and, following Completion, the Combined Group's employees, mortgage intermediaries or third party service providers, for which they 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 and, following Completion, the Combined Group's business, financial condition and results of operations.

**1.28 The Group is and, following Completion, the Combined Group will be exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events**

The Group's business is and, following Completion, the Combined Group's business will be 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 and, following Completion, the Combined Group, which may result in direct or indirect losses and could adversely impact the Group's and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group will be 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 Combined Group, in particular due to problems with migrating data, systems (such as IT systems) or processes. For more details, please refer to the risk factor entitled "*Integration of the Virgin Money Group into the Group may be more time consuming and costly than expected and unforeseen difficulties may arise*".

The Group is and, following Completion, the Combined Group will be dependent on their information systems and technology from a system stability, data quality and information security perspective. The Group is and, following Completion, the Combined Group will be dependent on payments systems and technology that interface with wider industry infrastructure; for example, the Group is, and, following Completion, the Combined Group, 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 and, following Completion, the Combined Group's ability to conduct their daily operations and their 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

The Group and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group, will be exposed to risks associated with an increase in the cost or lack of available insurance provision for the Combined 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects. Any actual or perceived inadequacies, weaknesses or failures in the Group's and, following Completion, the Combined Group's systems or processes could have a material adverse effect on their business, financial condition, results of operations and prospects.

**1.29 The Group and, following Completion, the Combined 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 and the Virgin Money 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 policies, see note 1.8 to the financial statements in the Issuer's 2017 Audited Financial Statements, which is incorporated by reference into this Base Prospectus.

If the judgements, estimates and assumptions used by the Group and, following Completion, the Combined Group in preparing their 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 and, following Completion, the Combined Group's business, financial condition and results of operations. For information on the Virgin Money Group's critical accounting policies, see note 1.9 to the 2017 Virgin Money Audited Financial Statements, which is incorporated by reference into this Base Prospectus.

The adoption of new accounting standard IFRS 9 'Financial Instruments' is expected to impact all UK financial institutions, including the Group and, following Completion, the Combined 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 will be implemented by the Group and the Combined Group with effect from 1 October 2018.

### **1.30 The Group and, following Completion, the Combined Group may fail to attract or retain executives, senior managers or other key employees**

The Group's and, following Completion, the Combined Group's success depends on the continued service and performance of their key employees, particularly their executives and senior managers, and their ability to attract, retain and develop high calibre talent. The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group's brand and values, which represents a major component of their overall strategy, or they do not wish to be located or relocate to the Group's and, following Completion, the Combined Group's key locations. The Group competes and, following Completion, the Combined Group will compete for talented people with skills that are in relatively short supply and they may not have sufficient scale to offer employees rates of compensation or opportunities to advance within the organisation comparable to their larger competitors, particularly at more senior levels. The Group and, following Completion, the Combined Group may also allocate resources improperly within their 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 and, following Completion, the Combined Group's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect the Group's and, following Completion, the Combined 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 and, following Completion, the Combined 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 Completion, 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 Combined Group's ability to retain key talent.

**1.31 The Group and, following Completion, the Combined Group face 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 and, following Completion, the Combined Group face 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 and, following Completion, the Combined Group are avoiding or evading tax, or if they are associated with customers that do so, could adversely affect their 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 and, following Completion, the Combined Group's profitability. Revisions to tax legislation or to its interpretation might also affect the Group's and, following Completion, the Combined 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 and, following Completion, the Combined 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 3.4 to the financial statements in the Issuer's 2018 Interim Financial Statements, which is incorporated by reference into this Base Prospectus.

The Group is not presently subject to the UK bank levy, introduced by the Finance Act 2011, as many of its liabilities are covered by the FSCS deposit protection scheme and accordingly are not within the scope of liabilities subject to the levy. Growth in eligible liabilities, or developments in bank levy legislation, may mean that the Group and, following Completion, the Combined Group is required to pay the UK bank levy in the future.

**1.32 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 and, following Completion, the Combined Group are 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 and, following Completion, the Combined 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

## **2. REGULATORY RISKS**

The Group's and, following Completion, the Combined 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 and, following Completion, the Combined Group does business and may restrict the scope of their existing businesses, limit their ability to expand their product offerings or make their 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 and, following Completion, the Combined Group's access to liquidity, increase their funding costs, increase their compliance costs, delay, limit or restrict their strategic development and have a material adverse effect on the Group's and, following

Completion, the Combined Group's business, financial condition, results of operations and prospects.

## 2.1 **The Group and, following Completion, the Combined Group are subject to substantial and changing prudential regulation**

The Group and, following Completion, the Combined 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 and, following Completion, the Combined 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, and, following Completion, the Combined 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. These reforms have a 5-year implementation period, commencing in January 2022.

Any future prudential regulatory developments could have a material adverse effect on the Group's and, following Completion, the Combined 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 provides for some of these measures to be phased in over a transitional period to 2018. The capital conservation buffer and the countercyclical capital buffer currently apply to the Group, along with a PRA capital buffer which is not prescribed under CRD IV. The countercyclical capital buffer was introduced in the UK in May 2014 and rose from 0 per cent. to be 0.5 per cent. of a bank's total risk weighted assets ("**RWAs**") in June 2018, and will rise 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 proposals will change the calculation of RWAs.

In the UK, the capital conservation buffer is subject to a transitional implementation that ends on 31 December 2018. The capital conservation buffer sits on top of the 4.5 per cent. minimum requirement for CET1 capital prescribed by CRD IV. If a bank breaches the capital conservation buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make. 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 countercyclical capital buffer, capital conservation 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 and, following Completion, the Combined 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 proposed in November 2016 – see “— *Minimum requirement for own funds and eligible liabilities*” for further information), binding regulatory technical standards to be developed by the EBA, 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 and, following Completion, the Combined 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 and, following Completion, the Combined 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. This may affect the Group's and, following Completion, the Combined Group's capacity to continue their 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 and, following Completion, the Combined Group raises additional capital through the issuance of share capital or capital instruments, existing shareholders and/or subordinated debt holders, including holders of Tier 2 Capital 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), together with the majority of associated FCA and PRA rules, was implemented in the UK in January 2015. PRA rules requiring contractual clauses in certain debt instruments and unsecured liabilities came into force on 19 February 2015, and PRA rules on contractual recognition of bail-in came into force on 1

January 2016. 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 are due to be 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. It also provides write-down or conversion powers to resolution authorities for such authorities to ensure that relevant capital instruments (including Tier 2 Capital 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 Tier 2 Capital 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.

**(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 UK Government has completed the secondary legislation required under the Banking Reform Act, including The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 and The Financial Services and Markets Act 2000 (Ring fenced Bodies and Core Activities) Order 2014, in July 2014. The remaining secondary legislation and the PRA and FCA rules required in connection with the Banking Reform Act have subsequently been released with an implementation date of 1 January 2019. The rules are typically referred to as “ring-fencing”. Both the Issuer and, following Completion, the Combined Group are in scope for ring-fencing.

The Banking Reform Act introduces a ring-fence around retail deposits held by UK banks with the aim of separating certain core banking services critical to individuals and SMEs from wholesale and investment banking services. The ring-fencing regime is intended to implement the core recommendation of the ICB that UK banks should ring-fence their retail and SME deposit-taking businesses in certain financially independent legal entities which are separate and distinct from certain designated trading and banking activities. The impact of ring-fencing on the Group and, following Completion,



the Combined Group may result in increased compliance costs or restrictions in some areas of business that may have an adverse impact on the Group's and, following Completion, the Combined Group's financial condition and results of operations. The introduction of ring-fenced and non-ring-fenced banks may also affect the nature of competition within the UK market.

Ring-fencing compliance plans to accommodate the Combined Group must also be implemented by 1 January 2019. Both the Group and the Virgin Money Group have been working on compliance with the legislation. The timing of the Offer being close to the ring-fencing compliance date leads to additional operational risk in successfully meeting all requirements in a compressed period.

**(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 a wider loss of confidence in the relevant financial sector.

The Group is responsible for contributing to the FSCS. The FSCS has estimated levies due to 31 March 2018 for the interest on borrowings and an accrual of £2 million is held for the Group's calculated liability to that date. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material adverse effect on the Group's and, following Completion, the Combined Group's business, financial condition and results of operations.

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. It introduces requirements on banks to contribute to their national deposit guarantee scheme at least annually and to have reached a target pre-funded level of at least 0.8 per cent. of deposits covered by the DGSD held by the relevant bank by 3 July 2024. In cases where this pre-funded level is insufficient to cover payments to depositors, the deposit guarantee scheme will collect immediate post-event contributions from the banking sector and, as a last resort, will have access to alternative funding arrangements such as loans from third parties. 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. Banks are attributed an "individual risk score" based on various factors (including e.g. their leverage ratio, CET1, liquidity coverage ratio, etc.). This score then drives a risk adjustment applied to individual bank's levy calculation. It is possible, as a result of the DGSD and subsequent UK implementation, that future FSCS levies on the Group and, following Completion, the Combined Group may differ from those at present, and such reforms could result in the Group and, following Completion, the Combined Group incurring additional costs and liabilities, which may have a material adverse effect on their profitability.

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 pan-European deposit insurance scheme for deposits below €100,000, to which banks would be required to contribute. This would work alongside the current national deposit guarantee schemes. The proposals for this are not yet finalised, and the legislative process on these measures is unlikely to start until 2019. 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 18 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 24.4 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. Consequently, it is difficult to predict the full effect MREL may have on the Group and, following Completion, the Combined 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 and, following Completion, the Combined Group may increase compliance costs, delay, limit or restrict the execution of the Group's and, following Completion, the Combined Group's strategy and may have a material adverse effect on the Group's and, following Completion, the Combined 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, following Completion, the Combined Group and their competitors and there is a risk that the relative impact may give rise to a reduction in competitiveness of the Group and, following Completion, the Combined 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 January 2018, the BoE issued a further consultation paper setting out its proposed expectations for reporting on the minimum requirements for own funds and eligible liabilities. 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.

On 23 November 2016, the European Commission presented a comprehensive package of reforms to further strengthen the resilience of EU banks. These proposals amend many of the existing provisions set forth in CRD IV and the BRRD and included provisions relating to MREL. These proposals are now being submitted for consideration by the European Parliament and Council of the European Union. Until the proposals are formally approved by the European Parliament and Council of the European Union, there can be no assurance as to whether, or when, the proposed amendments will be adopted and whether they will be adopted in the manner as currently proposed.

**(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 result of the UK Referendum) 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 and, following Completion, the Combined Group to hold additional operational risk Pillar 1 capital which could materially adversely affect the Group’s and, following Completion, the Combined Group’s access to liquidity, increase their funding costs, increase their compliance cost, delay, limit or restrict the execution of their strategy and have a material adverse effect on the Group’s and, following Completion, the Combined 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 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 this Base Prospectus, 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 or, following Completion, the Combined 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.

The final implementation of these final standards may increase the Group's and, following Completion, the Combined Group's capital requirements which may have a material adverse effect on the Group's and, following Completion, the Combined 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 will apply 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.

Any such regulation may increase compliance costs which may have a material adverse effect on the Group’s and, following Completion, the Combined 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 December 2017. 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 and, following Completion, the Combined 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 and following Completion, the Combined 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 July 2018, the PRA published Consultation Paper 14/18 (“UK leverage ratio: applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer”). This includes a proposal to apply leverage ratio requirements on a sub-consolidated basis to those ring-fenced bodies whose groups are already required to meet leverage requirements on a consolidated basis.

The Combined 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 and, following Completion, the Combined Group will be subject to substantial conduct regulations and regulatory oversight in respect of conduct issues**

- (a) The Group and, following Completion, the Combined Group are 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 and, following Completion, the Combined Group’s current or past business may be determined by their 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 and, following Completion, the Combined Group fails to comply with any relevant regulations, there is a risk of an adverse impact on their 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 and, following Completion, the Combined Group’s business;
- (b) the Group and, following Completion, the Combined 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 and, following Completion, the Combined Group’s financial statements and could adversely impact future revenues from affected products. See “—*The Group and, following Completion, the Combined 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 and, following Completion, the Combined Group may be liable for damages to third parties harmed by the manner in which the Group and, following Completion, the Combined Group has conducted one or more aspects of their 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 has confirmed that it will introduce 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. The final rules and guidance also include 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 FCA’s approach refers to a 50 per cent. commission “tipping point” at which firms should presume that the failure to disclose commission gave rise to an unfair relationship. Profit share must be included in the firm’s calculation of commission. Redress will be calculated as the excess commission over the 50 per cent. tipping point (although in light of the recent case of *Doran v Paragon Personal Finance* (unreported), in which it was determined that the entire undisclosed commission should be repaid plus interest, rather than anything above the 50 per cent. tipping point as stated in *Plevin*, it may be possible for claimants to recover more than this amount). Guidelines proposed in an FCA Consultation Paper published on 4 July 2018 may also increase the costs incurred by firms in relation to PPI complaints. In line with the industry, the Group is experiencing an increased volume of complaints both from customers and via claims management companies as a result of the announcement of the time bar. In addition, a customer contact exercise has been undertaken in respect of previously rejected complainants who are now eligible to complain in light of *Plevin*. The new rules have been implemented by the Group. As the FCA’s communication campaign progresses and the time bar approaches, (a) there may be a need for the Group and, following Completion, the Combined Group, to significantly increase resources, and (b) the ability of the Group and, following Completion, the Combined Group, to handle complaints within prescribed regulatory timescales may be affected.

### ***Consumer credit regime***

The Group is subject to the consumer credit regime under FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (the “**CCA**”) was transferred from the Office of Fair Trading (the “**OFT**”) to the FCA in April 2014. Certain secondary legislation, made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and 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 and, following Completion, the Combined 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 have now published Policy Statement 18/4, which outlines their approach to this. This includes requirements for firms to implement earlier intervention policies for customers prone to persistent debt, and provision of assistance to those customers.

### ***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 Virgin Money's and, following Completion, the Combined Group's asset management business, financial condition, results of operations or prospects may be negatively impacted in the future.

## **2.3 The Group and following Completion, the Combined Group are 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 has established a project and is employing a third party to provide peer comparison. This change has significantly increased the regulatory burden in relation to processing personal customer, employee and other data in the course of business and ensuring ongoing compliance with the regime.

### **(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, non-participation by the Group in



this aspect 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 (see the paragraph entitled “*Payment Services Directive 2*” below).

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

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 Third Party Payment Providers (“**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). Other elements of PSD2 include increased security for online payment transactions, increased consumer rights when sending monies outside Europe and in non-EU currencies and 15 day complaint handling timescales for any complaint relating to the rights and obligations covered by PSD2.

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.

(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 residual elements of PAD require the introduction of new customer facing documents and the use of standard terminology in relation to payment accounts. These changes are required to be implemented by 31 October 2018. The level of documentation that is required to be reviewed and amended to comply with this element is extensive.

(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 this Base Prospectus, 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. As at the date of this Base Prospectus, the impact of these requirements could not be fully ascertained until the remaining rules are implemented but they could have a material impact on the Group’s and, following Completion, the Combined Group’s financial condition and operations.

(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. 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

(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. 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 and, following Completion, the Combined Group's business, financial condition, results of operations and prospects.

(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. 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 and, following Completion, the Combined 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. For further information on the Benchmark Regulation, refer to the risk factor titled "*Risk Factors – Risks Relating to the Notes - Risks related to the structure of the Notes - Discontinuation of LIBOR and other benchmarks*".

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).

The Group is not a benchmark administrator. However, the Benchmark Regulation could have a material impact on any Notes linked to or referencing a “benchmark”, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the “benchmark”.

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”.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to 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 and, following Completion, the Combined Group’s business, financial condition, results of operations and prospects.

### **3. RISKS RELATING TO THE OFFER**

#### **3.1 There are risks that the Offer will not be implemented on a timely basis or at all. The implementation of the Offer is subject to the satisfaction of certain conditions and those conditions may not be satisfied**

The implementation of the Offer is subject to the satisfaction, or, where permitted, waiver of certain conditions including among other things, approvals of the shareholders of the Issuer, the relevant shareholders of Virgin Money (including in respect of the Brand Licence Agreement), sanction of the proposed scheme of arrangement by the court under part 26 of the Companies Act 2006 between Virgin Money and its shareholders, and receipt of certain regulatory clearances and approvals. Further information on the conditions to implementation of the Offer are set out in “*Part I (Information about the Offer)*” of the 2018 Virgin Money Proposed Acquisition and Share Prospectus, which is incorporated by reference into this Base Prospectus. The conditions to Completion are to be satisfied by 31 January 2019 (or, where permitted, waived) (or such later date as may be agreed). However, the Offer is currently expected to complete during the fourth quarter of calendar year 2018.

There is no guarantee that these conditions will be satisfied (or, where permitted, waived). In granting their consent, the regulatory authorities have discretion in imposing conditions and restrictions to their consent which could result in a delay in completion of, or a decision not to complete, the Offer or could have a material adverse effect on the business and results of operations of the Combined Group following Completion. Failure to satisfy any of these conditions may result in the Offer not being completed. In particular, certain of the conditions cannot be waived by the Issuer. If the Offer does not complete, the Group would nonetheless be obliged to pay approximately £12.2 million (excluding VAT) of transaction costs (primarily advisory and legal fees) incurred in connection with the Offer. Failure to complete the Offer may also have an adverse impact on the financial condition, future operating results and/or prospects of the Group and the price of the Notes in the secondary market may be adversely affected.

**3.2 The prospect of Completion could cause disruptions in the businesses of the Group and/or the Virgin Money Group, which could have material adverse effects on their business, financial condition, results of operations and prospects, as well as on the business, financial condition, results of operations and prospects of the Combined Group**

The prospect of Completion could cause disruptions in the businesses of the Group and that of the Virgin Money Group. For example, either or both of the Group's or the Virgin Money Group's current and prospective customers may, in response to the announcement of the Offer, terminate, change or defer their custom, any such termination, change or deferral by current and prospective customers could materially and adversely impact the revenues, profits of the Group or the Virgin Money Group and/or any anticipated growth in the revenues could be lower than expected. Furthermore, both during the Offer process and if the Offer is completed, some current and prospective employees of the Group or the Virgin Money Group may experience uncertainty about their future roles within the Combined Group, which may adversely affect the Group's and the Virgin Money Group's abilities to retain or recruit key managers and other employees. Also, market reaction to and/or speculation regarding the likelihood of Completion could increase the volatility of the price of the Notes in the secondary market.

If the Group and the Virgin Money Group fail to manage these risks effectively, the business and financial results of the Group, the Virgin Money Group and the Combined Group could be adversely affected. The Group may incur higher than expected transaction and Offer related costs. The Issuer will incur legal, accounting and transaction fees and other costs related to the Offer, which are expected to amount to approximately £34 million (excluding VAT, including stamp duty of approximately £9 million), in aggregate. Some of these costs are payable regardless of whether the Offer is completed, and such costs may be higher than anticipated.

**3.3 Synergy benefits resulting from the Offer may fail to materialise or be materially lower than have been estimated**

The Issuer believes the combination of the businesses of the Group and the Virgin Money Group will achieve significant operational cost savings for the Combined Group. However, there is a risk that the projected cost savings will fail to materialise, including if the Offer is not completed as contemplated, or that they may be materially lower than have been estimated, which would have a significant impact on the profitability of the Combined Group in the future.

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

The integration process following Completion 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 Combined 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 or if the Offer is not completed as contemplated, there is a risk to the operational performance of the Combined Group.

The integration of the Virgin Money Group into the Group exposes, if the Offer is completed, the Combined Group to the following risks:

***Retention of key staff***

The success of the Combined 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 Combined Group in favour of competing entities. The inability to retain key staff could impair the ability of the Combined Group to properly execute the integration of the Virgin Money Group with the Combined Group.

***Integration of employee groups***

The merger of the employee groups of the Group and the Virgin Money 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 the Combined Group which may in turn disrupt the integration process.

***Disruption or failure of systems***

The integration of the Virgin Money Group into the Group may cause disruptions or failures in the IT systems of the Combined Group. Such disruptions or failures could damage the reputation of the Combined 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 Virgin Money Group into the Group could be subject to risks caused by cyber-enabled crime and fraud (for further information, see the risk factor entitled "*The Group and, following Completion, the Combined Group are exposed to risks associated with cyber-enabled crime and fraud*") and 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 and the Virgin Money Group and, following Completion, the Combined 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 following Completion, the Combined 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 and, following Completion, the Combined 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 Combined Group to increased regulatory scrutiny.

### ***Impact on customer growth***

The integration of the Virgin Money Group into the Group may result in the Combined Group having a higher risk portfolio due to either (i) changes in its customer base as a result of the Combination, or (ii) by targeting a more diverse set of segments following Completion. Any such negative impact on the Combined Group’s risk portfolio could lead to a material adverse effect on the Group, the Virgin Money Group and, following Completion, the Combined 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 the Virgin Money Group 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 Offer. 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 Combined Group might be detrimentally affected, which could have a material adverse effect on the business, financial condition and result of operations of the Combined Group.

### **3.5 Change of control provisions in the Group’s and the Virgin Money Group’s agreements may be triggered upon Completion and may lead to adverse consequences**

The Group and the Virgin Money Group are party to contracts, agreements and instruments that contain change of control provisions that may be triggered upon Completion. Usually these provisions, if any, may be waived with the consent of the other party, and the Group and Virgin Money Group will consider whether they will seek such waivers. In absence of these waivers, the operation of the change of control provisions, if any, could result in the loss of significant contractual rights and benefits, the termination of significant agreements or the payment of a termination fee. In addition, employment agreements or other employee benefit arrangements with the Group’s and the Virgin Money Group’s employees may contain change of control provisions providing for additional payments following a change of control.

## **4. RISKS RELATING TO THE NOTES**

### **4.1 Risks related to the structure of the Notes**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain risks relating to the structure of the Notes:

#### **(a) *Certain Notes may be redeemed prior to maturity***

Unless in the case of any particular Tranche of Notes the relevant Final Terms specify otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Jurisdiction, the Issuer may redeem all outstanding Notes in accordance with the Conditions, subject to the prior permission of the Competent Authority and/or the Resolution Authority (if, and to the extent, such permission is then required by the Capital Regulations). Furthermore, the Issuer may be entitled to

redeem the Notes if (A) the tax treatment for the Issuer in respect of the Notes is negatively altered after their issue date; (B) a change in the regulatory classification of the relevant Tier 2 Capital Notes occurs on or after their issue date; or (C) if Loss Absorption Disqualification Call is specified in the relevant Final Terms for a Series of Senior Notes as being applicable, such Senior Notes are fully or (if so specified in the relevant Final Terms) partially excluded from the Issuer's and/or the Group's minimum requirements for (1) own funds and eligible liabilities and/or (2) loss absorbing capacity instruments, in each case, subject to the prior permission of the Competent Authority and/or the Resolution Authority (if, and to the extent, such permission is then required by the Capital Regulations).

In addition, if in the case of any particular Tranche of Notes, the relevant Final Terms specify that the Notes are redeemable at the Issuer's option in certain other circumstances or at any time, subject to the prior consent of the Competent Authority (if such consent is then required by the Capital Regulations), the Issuer may be expected to choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes. Any decision by the Issuer as to whether it will exercise its option to redeem the Notes will be taken at the absolute discretion of the Issuer with regard to factors such as, but not limited to, the economic impact of exercising such option to redeem the Notes, any tax consequences, the regulatory capital requirements and the prevailing market conditions. Noteholders should be aware that they may be required to bear the financial risks of an investment in the Notes until maturity.

Furthermore, unless, in the case of any particular Tranche of Senior Notes, the relevant Final Terms specify that the Notes are redeemable at the option of the Noteholders, Noteholders will have no right to request the redemption of the Notes and should not invest in the Notes in the expectation that the Issuer would exercise its option to redeem the Notes.

**(b) Tier 2 Capital Notes are subordinated to most of the Issuer's liabilities**

Tier 2 Capital Notes will constitute unsecured and subordinated obligations of the Issuer. On a Winding-Up, all claims in respect of such Notes will rank junior to the claims of all Senior Creditors of the Issuer. 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 holders of the Tier 2 Capital Notes will lose their entire investment in the Tier 2 Capital 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 it to pay claims in respect of its obligations in respect of the Tier 2 Capital Notes and all other claims that rank *pari passu* with the Tier 2 Capital Notes, holders of the Tier 2 Capital Notes will lose some (which may be substantially all) of their investment in the Tier 2 Capital Notes. See “— *Risks relating to the Notes generally — Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*” below.

**(c) Holders of Tier 2 Capital Notes will, and holders of Senior Notes may, have limited remedies**

Payment of principal and accrued but unpaid interest on the Tier 2 Capital Notes, or on any Series of Senior Notes if specified in the relevant Final Terms, shall be accelerated upon 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 Tier 2 Capital Notes, or on any Series of Senior Notes if specified in the relevant Final Terms, or of the Issuer's failure to perform any of its obligations under or in respect of the Tier 2 Capital Notes, under or in respect of any Series of Senior Notes if specified in the relevant Final Terms.

A Winding-up Event results if (1) 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 of Notes and do not provide that the Notes thereby become redeemable or repayable in accordance with the Conditions); or (2) following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend; or (3) liquidation or dissolution of the Issuer or any procedure similar to that described in (1) or (2) above is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

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 Tier 2 Capital Notes, or under any Series of Senior Notes if specified in the relevant Final Terms, is (subject to certain conditions and to the provisions set forth in Condition 13 (*Events of Default*)) 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 prove in the winding-up of the Issuer and/or claim in the Issuer's liquidation or administration.

Although the Trustee may institute such proceedings against the Issuer as it may think fit to enforce any term, obligation or condition binding on the Issuer under the Tier 2 Capital Notes, or under any Series of Senior Notes if specified in the relevant Final Terms, or the Trust Deed (other than any payment obligation of the Issuer under or arising from the Tier 2 Capital Notes, or under or arising from any Series of Senior Notes if specified in the relevant Final Terms, or the Trust Deed, including, without limitation, payment of any principal or interest, excluding any amount due to the Trustee in respect of its fees and/or expenses) (referred to herein as "**Performance Obligations**"), 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 such Monetary Judgment in a winding-up of the Issuer and/or claiming such Monetary Judgment in an administration of the Issuer.

(d) ***The Issuer is a holding company***

The Issuer is a holding company that currently has no significant assets other than its loans to, and investments in, its subsidiaries which means that if any such subsidiary is liquidated, the Issuer's right to participate in the assets of such subsidiary will depend upon the ranking of the Issuer's claims against such subsidiary according to the ordinary hierarchy of claims in insolvency. So, for example, insofar as the Issuer is a holder of ordinary shares in one of its subsidiaries, the Issuer's recovery in the liquidation of such subsidiary will be subject to the prior claims of such subsidiary's third party creditors and preference shareholders (if any). To the extent the Issuer holds other claims against any of its subsidiaries that are recognised to rank *pari passu* with any third party creditors' or preference shareholders' claims, such claims of the Issuer should in liquidation be treated *pari passu* with those third party claims.

As well as the risk of losses in the event of a subsidiary's insolvency, the Issuer may suffer losses if any of its loans to, or investments in, such subsidiary are subject to statutory



write-down and conversion powers or if the subsidiary is otherwise subject to resolution proceedings. See “— *Risks relating to the Notes generally — Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*” below. The Issuer has in the past made, and may continue to make, loans to, and investments in, its subsidiaries with the proceeds received from the Issuer’s issuance of debt instruments. Such loans to, or investments in, such subsidiary by the Issuer have, to date, had a legal ranking in the insolvency of such subsidiary that corresponds to the legal ranking of such debt instruments of the Issuer in the insolvency of the Issuer. Where securities issued by the Issuer have been structured so as to qualify as capital instruments under CRD IV, the terms of the corresponding on-loan to, or investment in, the relevant subsidiary have been structured to achieve equivalent regulatory capital treatment for such subsidiary. Accordingly, certain of the loans to, and investments made by the Issuer in such subsidiary, contain contractual mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of the Group or such subsidiary would automatically result in a write-down or conversion into equity of such loans and investments.

The Issuer retains its absolute discretion to restructure such loans to, and any other investments in, any of its subsidiaries, at any time and for any purpose including, without limitation, in order to provide different amounts or types of capital or funding to such subsidiary, as part of wider changes made to the Group’s corporate structure for the purposes of structural reform, or otherwise as part of meeting regulatory requirements, such as the implementation of MREL or TLAC in respect of the relevant subsidiaries. A restructuring of a loan or investment made by the Issuer in a subsidiary could include changes to any or all features of such loan or investment, including its legal or regulatory form, how it would rank in the event of resolution and/or insolvency proceedings in relation to the relevant subsidiary, and the inclusion of a mechanism that provides for an automatic write-down and/or conversion into equity upon specified triggers. Any restructuring of the Issuer’s loans to, and investments in, any of its subsidiaries may be implemented by the Issuer without prior notification to, or consent of, the Holders.

The regulatory capital treatment, and otherwise the ranking in the ordinary insolvency hierarchy, of the Issuer’s claims against a subsidiary will affect the extent to which the Issuer is exposed to losses if such subsidiary enters into resolution proceedings or is subject to mandatory write-down or conversion of its capital instruments. In particular, the Banking Act 2009, as amended (the “**Banking Act**”) specifies that the resolution powers should be applied in a manner such that losses are transferred to shareholders and creditors in an order which reflects the hierarchy of issued instruments under CRD IV and which otherwise respects the hierarchy of claims in an ordinary insolvency, as described above. See *“The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Notes, which may result in Holders losing some or all of their investment”* below for a discussion of the new Creditor Hierarchy Directive. In general terms, the more junior in the capital structure the investments in, and loans made to, any subsidiary are, relative to third party investors, the greater the losses likely to be suffered by the Issuer in the event any subsidiary enters into resolution proceedings or is subject to mandatory write down or conversion of its capital instruments.

If any subsidiary were to be wound up, liquidated or dissolved, (A) the holders of Notes would have no right to proceed against the assets of such subsidiary, and (B) the liquidator of such subsidiary would first apply the assets of such subsidiary to settle the claims of the creditors (and holders of preference shares or other tier 1 capital instruments ranking ahead of any such entity’s ordinary shares) of such subsidiary (such creditors and holders of preference shares may include the Issuer) ranking ahead of the holders of ordinary shares of such subsidiary. Similarly, if any subsidiaries were subject to resolution proceedings (1) the holders of Notes would have no direct recourse against such subsidiary, and (2) Holders themselves may also be exposed to losses pursuant to the

exercise by the relevant resolution authority of the stabilisation powers — see “— *Risks relating to the Notes generally — Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*” below.

(e) ***Fixed/Floating Rate Notes***

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

(f) ***The value of Fixed Rate Notes may be adversely affected by movements in market interest rates***

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

(g) ***The interest rate on Reset Notes will reset on each Reset Date, which can be expected to affect the interest payment on an investment in Reset Notes and could affect the market value of Reset Notes***

Reset Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the First Reset Date. On the First Reset Date and each Subsequent Reset Date (if any) thereafter, the interest rate will be reset to the sum of the applicable Mid-Swap Rate or Benchmark Gilt Rate and the First Margin or Subsequent Margin (as applicable) as determined by the Calculation Agent on the relevant Reset Determination Date (each such interest rate, a “**Subsequent Reset Rate**”). The Subsequent Reset Rate for any Reset Period could be less than the Initial Rate of Interest or the Subsequent Reset Rate for prior Reset Periods and could affect the market value of an investment in the Reset Notes.

(h) ***Notes where denominations involve integral multiples***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who (as a result of trading such amounts) holds an amount which is less than the minimum Specified 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 Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

(i) ***Waiver of set-off***

The Holders of the Tier 2 Capital Notes and (if Senior Notes Waiver of Set-off is stated in the relevant Final Terms as being applicable) Senior Notes waive any right of set-off in relation to such Notes insofar as permitted by applicable law. Therefore, Holders of Tier 2 Capital Notes and Senior Notes (if applicable) will not be entitled (subject to applicable law) to set-off the Issuer's obligations under such Notes against obligations owed by them to the Issuer.

(j) ***Market disruption***

In certain situations, interest is determined by reference to market information sources. Such market information sources might become unavailable for various reasons, including suspensions or limitations on trading, events which affect or impair the ability of market participants in general, or early closure of market institutions. These could be caused by, amongst other things, physical threats to the publishers of the market information sources, market institutions or market participants in general, or unusual trading, or matters such as currency changes.

In respect of a Floating Rate Note (where the Rate of Interest is to be determined by reference to a screen rate, such as LIBOR and/or EURIBOR and/or the CMS Rate), if LIBOR and/or EURIBOR and/or the CMS Rate (each as defined in the Conditions) (the "**Reference Rate**") does not appear on the relevant screen page or if the relevant screen page is not available for any reason, the Calculation Agent will request each of the Reference Banks, appointed by the Issuer, to provide the Calculation Agent with its offered quotation to leading banks for the Reference Rate for the purposes of determining the applicable Rate of Interest. However, there can be no assurance that the Issuer will be able to appoint one or more Reference Banks to provide offered quotations and no Reference Banks have been appointed at the date of this Base Prospectus. Condition 6 (Floating Rate Note Provisions) sets out fallback provisions if fewer than the requisite number of Reference Banks are appointed.

(k) ***Discontinuation of LIBOR and other benchmarks***

On 27 July 2017, the FCA announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. In a further speech on 12 July 2018, Andrew Bailey emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021, which indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Based on the foregoing, it appears likely that LIBOR will be discontinued or modified by 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. In light of the Benchmark Regulation, and benchmark reform more generally, other benchmarks (including, for example, EURIBOR) could be subject to similar announcements. This may cause LIBOR and other benchmarks to be administered differently, to perform differently than they did in the past, to be discontinued or there may be other consequences that cannot be predicted. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates, and as to potential changes to such benchmarks or their administration may adversely affect such benchmarks during the term of the relevant Notes (such as Floating Rate Notes and Reset Notes), the return on the relevant Notes and the trading market for securities based on the same benchmark.

Investors should be aware that, if LIBOR or any other benchmark (including, for example, EURIBOR) was discontinued or otherwise unavailable, the rate of interest on any Notes which reference LIBOR or such other benchmark (such as Floating Rate Notes and Reset Notes) will be determined for the relevant period by the fall-back provisions applicable to such Notes (as further described in Condition 5 (Reset Note Provisions) and Condition 6 (Floating Rate Note Provisions)). Depending on the manner in which LIBOR (or such other benchmark) is to be determined under the Terms and Conditions of the relevant Notes, this may in certain circumstances (i) be reliant upon the provision by reference banks of offered quotations for the relevant rate which, depending on market circumstances, may not be available at the relevant time or may provide a different result than if LIBOR (or such other benchmark) had continued or continued to be administered in its previous form; or (ii) result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. In circumstances where LIBOR (or such other benchmark) continues to be available but is administered differently or performs differently, this could result in adverse consequences for Notes linked to such benchmark (including Reset Notes or Floating Rate Notes).

Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any such Notes.

## 4.2 Risks relating to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally.

### (a) ***Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes***

The majority of the requirements of the BRRD (including the bail-in tool) were implemented in the UK by way of amendments to the Banking Act. For more information on the bail-in tool, see “— *The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Notes, which may result in Holders losing some or all of their investment*” below.

On 23 November 2016, the European Commission published, among other proposals, proposals to amend the BRRD. The majority of these proposals are still in draft form and are still subject to the European Union (“EU”) legislative process and national implementation. Therefore, it is unclear what the effect of such proposals may be on the Group, the Issuer or the Notes. See “— *Changes in law may adversely affect the rights of Holders*”.

### (b) ***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 or 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 are granted to the BoE (or, in certain circumstances, HMT), in consultation with the PRA, the FCA and HMT, as appropriate as part of a special resolution regime (the “SRR”). These powers enable the relevant UK resolution authority to implement resolution measures with respect to a UK bank or investment firm and certain of its affiliates (currently including the Issuer) (each a “**relevant entity**”) in circumstances in which the relevant UK resolution authority is satisfied that the resolution conditions are met. Such conditions include that a UK bank or investment firm is failing or is likely to fail to satisfy the FSMA threshold conditions for authorisation to carry on certain regulated activities (within the meaning of Section 55B of

the FSMA) or, in the case of a UK banking group company that is an EEA or third country institution or investment firm, that the relevant EEA or third country relevant authority is satisfied that the resolution conditions are met in respect of such entity.

The SRR consists of five stabilisation options: (A) private sector transfer of all or part of the business or shares of the relevant entity; (B) transfer of all or part of the business of the relevant entity to a “bridge bank” established by the BoE; (C) transfer to an asset management vehicle wholly or partly owned by HMT or the BoE; (D) the bail-in tool (as described below); and (E) temporary public ownership (nationalisation).

The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify contractual arrangements in certain circumstances (which could include a variation of the terms of the Notes), powers to impose temporary suspension of payments, 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 UK resolution authority to disapply or modify laws in the UK (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

- (c) ***Holders should assume that, in a resolution situation, financial public support will only be available to a relevant entity as a last resort after the relevant UK resolution authorities have assessed and used, to the maximum extent practicable, the resolution tools, including the bail-in tool (as described below)***

The exercise of any resolution power or any suggestion of any such exercise could materially adversely affect the value of any Notes and could lead to Holders losing some or all of the value of their investment in the Notes. The SRR is designed to be triggered prior to insolvency of the Issuer, and Holders may not be able to anticipate the exercise of any resolution power (including the bail-in tool) by the relevant UK resolution 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.

Although the Banking Act provides specific conditions to the exercise of any resolution powers and, furthermore, the EBA’s guidelines published in May 2015 set out the objective elements for the resolution authorities to apply in determining whether an institution is failing or likely to fail, it is uncertain how the relevant UK resolution authority would assess such conditions in any particular pre-insolvency scenario affecting the Issuer and/or other members of the Group and in deciding whether to exercise a resolution power.

The relevant UK resolution authority is also not required to provide any advance notice to Holders of its decision to exercise any resolution power. Therefore, Holders 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 Group and the Notes.

- (d) ***Holders may have only very limited rights to challenge the exercise of any resolution powers (including the UK bail-in tool) by the relevant UK resolution authority***

Holders may have only very limited rights to challenge and/or seek a suspension of any decision of the relevant UK resolution authority to exercise its resolution powers (including

the UK bail-in tool) or to have that decision reviewed by a judicial or administrative process or otherwise.

(e) ***The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Notes, which may result in Holders losing some or all of their investment***

Where the relevant statutory conditions for use of the bail-in tool have been met, the relevant UK resolution authority would be expected to exercise these powers without the consent of the Holders. Any such exercise of the bail-in tool in respect of the Issuer and the Notes 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 the Notes into shares or other Notes or other obligations of the Issuer or another person, or any other modification or variation to the terms of the Notes.

The Banking Act specifies the order in which the bail-in tool should be applied, reflecting the hierarchy of capital instruments under CRD IV and otherwise respecting the hierarchy of claims in an ordinary insolvency. In addition, the bail-in tool contains an express safeguard (known as “**no creditor worse off**”) with the aim that shareholders and creditors do not receive a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity. Following the proposals published by the European Commission of 23 November 2016, a new Directive (EU) 2017/2399 (the “**Creditor Hierarchy Directive**”) came into force which amends the BRRD as regards the ranking of unsecured debt instruments in the insolvency hierarchy. The Creditor Hierarchy Directive, when transposed into national law, will introduce a new creditor hierarchy for unsecured debt instruments with the inclusion of a new MREL/TLAC eligible subordinated debt class within that hierarchy. Member States have until 29 December 2018 to transpose the Creditor Hierarchy Directive into national law.

The exercise of the bail-in tool in respect of the Issuer and the Notes or any suggestion of any such exercise could materially adversely affect the rights of the Holders, 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 Holders losing some or all of the value of their investment in such 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 Holders in the resolution and there can be no assurance that Holders would recover such compensation promptly.

(f) ***Mandatory write-down and conversion of capital instruments may affect the Tier 2 Capital Notes***

In addition, the Banking Act requires the relevant UK resolution authority to permanently write-down, or convert into equity, tier 1 capital instruments and tier 2 capital instruments (such as the Tier 2 Capital Notes) 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 capital 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 UK resolution authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity or its parent entity or group 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 UK resolution authority determines that the relevant entity would no longer be viable.

Holders of Tier 2 Capital Notes may be subject to write-down or conversion into equity on application of such powers (without requiring the consent of such Holders), which may result in such Holders losing some or all of their investment.

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 Holders of Tier 2 Capital Notes, the price or value of their investment in such Notes and/or the ability of the Issuer to satisfy its obligations under such Notes.

(g) ***There is no restriction on the amount or type of further securities or indebtedness that the Issuer or its subsidiaries may issue, incur or guarantee***

Subject to complying with applicable regulatory requirements in respect of the Group's leverage and capital ratios, there is no restriction on the amount or type of further securities or indebtedness that the Issuer or its subsidiaries may issue, incur or guarantee, as the case may be, that rank senior to, or pari passu with, the Notes. The issue or guaranteeing of any such further securities or indebtedness may reduce the amount recoverable by Holders on a liquidation or winding-up of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes. In addition, the Notes do not contain any restriction on the Issuer issuing securities that may have preferential rights to the Notes or securities with similar or different provisions to those described herein.

(h) ***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. The Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant 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 Tax Event, a Regulatory Event or a Loss Absorption Disqualification Event would entitle the Issuer, at its option (subject to, amongst other things, receipt of the prior consent of the Competent Authority (if such consent is then required by the Capital Regulations)), to redeem the Notes, in whole but not in part, as provided under Condition 9(C) (Redemption for Tax Event), 9(D) (Redemption for Regulatory Event) or 9(E) (Redemption for Loss Absorption Event), as the case may be.

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 Group's business, financial performance, capital and risk management strategies. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore the Issuer's, performance and financial condition. It is not yet possible to predict the detail of such legislation or regulatory rule-making or the ultimate consequences to the Group or the Holders, which could be material to the rights

of Holders of the Notes and/or the ability of the Issuer to satisfy its obligations under such Notes. For example, on 23 November 2016, the European Commission presented a comprehensive package of reforms to further strengthen the resilience of EU banks. These proposals amend many of the existing provisions set forth in CRD IV and the BRRD. The majority of these proposals are currently under consideration by the European Parliament and Council, although the Creditor Hierarchy Directive entered into force in December 2017 – see *"The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Notes, which may result in Holders losing some or all of their investment"* above for a discussion of the new Creditor Hierarchy Directive. These proposals are currently under consideration by the European Parliament and Council of the European Union. Until such time as the proposals are formally approved by the European Parliament and Council of the European Union, there can be no assurance as to whether, or when, the proposed amendments will be adopted and whether they will be adopted in the manner as currently proposed and therefore it is uncertain how they will affect the Issuer, the Group or the holders of the Notes.

- (i) ***A downgrade of the credit rating assigned by any credit rating agency to the Issuer or, if applicable, to the Notes could adversely affect the liquidity or market value of the Notes. Credit ratings downgrades could occur as a result of, among other causes, changes in the ratings methodologies used by credit rating agencies***

Tranches of Notes issued under the Programme may be rated by credit rating agencies and may in the future be rated by additional credit rating agencies, although the Issuer is under no obligation to ensure that any Notes issued by them under the Programme 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.

Any rating assigned to the Issuer and/or, if applicable, the Notes may be withdrawn entirely by a credit rating agency, may be suspended or may be lowered, if, in that credit rating agency's judgment, circumstances relating to the basis of the rating so warrant. Ratings may be impacted by a number of factors which can change over time, including the credit rating agency's assessment of: the Issuer's strategy and management's capability; the Issuer's financial condition including in respect of capital, funding and liquidity; competitive and economic conditions in the Group's key markets; the level of political support for the industries in which the Group operates; and legal and regulatory frameworks affecting the Issuer's legal structure, business activities and the rights of its creditors. The credit rating agencies may also revise the ratings methodologies applicable to an issuer within a particular industry or political or economic region. If credit rating agencies perceive there to be adverse changes in the factors affecting an issuer's credit rating, including by virtue of change to applicable ratings methodologies, the credit rating agencies may downgrade, suspend or withdraw the ratings assigned to an issuer and/or its securities. Revisions to ratings methodologies and actions on the Issuer's ratings by the credit rating agencies may occur in the future.

If the Issuer determines to no longer maintain one or more ratings, or if any credit rating agency withdraws, suspends or downgrades the 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, if applicable, the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), whether as a result of the factors described above or otherwise, such event could adversely affect the liquidity or market value of the Notes (whether or not the Notes had an assigned rating prior to such event).



(j) ***Investors to rely on the procedures of Euroclear, Clearstream, Luxembourg and DTC for transfer, payment and communication with the Issuer***

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates which may be deposited with a common depositary for Euroclear and Clearstream Luxembourg or with DTC (each of Euroclear, Clearstream, Luxembourg and DTC, a “**Clearing System**”). If the Global Notes are NGN or if the Unrestricted Global Certificates are to be held under the NSS, they will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg and, in the case of Restricted Global Certificates will be deposited with a custodian for and registered in the name of a nominee of DTC. Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System will maintain records of the beneficial interests in the Global Notes or, as the case may be, Global Certificates. While the Notes are represented by one or more Global Notes, or as the case may be, Global Certificates, investors will be able to trade their beneficial interests only through the relevant Clearing System or, in the case of Restricted Global Certificates, DTC.

While the Notes are represented by one or more Global Notes or, as the case may be, Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary or, for Global Notes that are NGN and Global Certificates to be held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg or, as appropriate, the Custodian for DTC. A holder of a beneficial interest in a Global Note or Unrestricted Global Certificate must rely on the procedures of the relevant Clearing System or, in the case of Restricted Global Certificates, DTC, to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Restricted Global Certificates.

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

(k) ***Modification, waivers and substitution***

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, subject to certain exceptions and Condition 17(D) (*Competent Authority Notice or Consent*) in the case of modifications or waivers without the consent of the Noteholders, agree to (A) any modification of, or waiver or authorisation of any breach or proposed breach of, any of the Notes or the Trust Deed which, in each case, in the opinion of the Trustee is not materially prejudicial to the interest of the Noteholders or, in the case of a modification, in the opinion of the Trustee is of a formal, minor or technical nature or to correct a manifest error; (B) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such if, in the opinion of the Trustee, the interests of the relevant Noteholders will not be materially prejudiced thereby; or (C) the substitution of any Subsidiary of the Issuer as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 (*Meetings of Noteholders; Modification and Waiver; Substitution*) (except that the provisions relating to the Tier 2 Capital Notes shall only be capable of modification, waiver or substitution if such

modification, waiver or substitution is in accordance with all other rules and requirements of the Competent Authority applicable from time to time).

#### 4.3 **Risks relating to the market generally**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

(a) ***There may not be any active trading market for the Notes***

The Notes issued under the Programme will be a new issue of Notes which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). 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 Notes issued under the Programme to be admitted to trading on the London Stock Exchange, if so specified in the relevant Final Terms, there can be no assurance that such application will be accepted, that the Notes will be so admitted, or that an active trading market will develop. Even if an active trading market does develop, it may not be liquid and may not continue for the term of the Notes.

(b) ***The trading market for debt securities may be volatile and may be adversely impacted by many events***

The market for debt securities issued by the Issuer is influenced by economic, political and market conditions and, to varying degrees, market conditions, interest rates, currency exchange rates and inflation rates. If the secondary market for the Notes is limited, there may be few buyers and this may reduce the relevant market price of the Notes. There can be no assurance that events in the United Kingdom or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect on the Notes.

(c) ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (A) the Investor's Currency equivalent yield on the Notes; (B) the Investor's Currency equivalent value of the principal payable on the Notes; and (C) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion in accordance with Part A of the relevant Final Terms, shall be applicable to Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms, or (ii) these terms and conditions as so completed shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in the terms and conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on Notes in definitive form or Certificates (as the case may be). The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Forms of the Notes — Summary of Provisions Relating to the Notes while in Global Form” above. The wording appearing in italics below is included for disclosure purposes only and does not form part of the terms and conditions of the Notes.*

This Note is one of a series (each a **“Series”**) issued pursuant to the £10,000,000,000 Global Medium Term Note Programme (the **“Programme”**) established by CYBG PLC (the **“Issuer”**) on 25 May 2017. This Note is constituted by a Trust Deed dated 25 May 2017 (as amended, restated, modified and/or supplemented as at the Issue Date (as defined below) of the first Tranche (as defined below) of the Notes of the relevant Series, the **“Trust Deed”**) between the Issuer and Citicorp Trustee Company Limited (the **“Trustee”** which expression shall wherever the context so admits include its successors) and has the benefit of an Agency Agreement dated 25 May 2017 (as amended, restated, modified and/or supplemented as at the Issue Date of the first Tranche of Notes of the relevant Series, the **“Agency Agreement”**) made between, *inter alios*, the Issuer, the Trustee, Citibank, N.A., London Branch as initial principal paying agent and the other agents named therein. The principal paying agent, the paying agents, the registrar, the transfer agents and the calculation agent for the time being (if any) are referred to below, respectively, as the **“Principal Paying Agent”**, the **“Paying Agents”** (which expression shall include the Principal Paying Agent), the **“Registrar”**, the **“Transfer Agents”** (which expression shall include the Registrar) and the **“Calculation Agent”**. The Trustee shall exercise the duties, powers, trusts, authorities and discretions vested in it by the Trust Deed separately in relation to each Series of Notes in accordance with the provisions of the Trust Deed. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during normal business hours at the office for the time being of the Principal Paying Agent (being as at 25 May 2017, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom).

Holders of Notes and, in relation to any Series of Bearer Notes, any coupons (**“Coupons”**) or talons for further Coupons (**“Talons”**) appertaining thereto are entitled to the benefit of, are bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

The term **“Notes”** means debt instruments, by whatever name called, issued under the Programme. The Notes may be issued in bearer form (**“Bearer Notes”**) or in registered form (**“Registered Notes”**). All subsequent references in these Conditions to **“Notes”** are to the Notes which are the subject of the relevant Final Terms. Notes issued under the Programme are issued in Series and each Series may comprise one or more tranches (each a **“Tranche”**) of Notes. Each Tranche is the subject of the relevant final terms (the **“Final Terms”**) which supplements these terms and conditions (the **“Conditions”**). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions.

## 1. Interpretation

- (A) **Definitions:** In these Conditions the following expressions have the following meanings:

**“Accrual Yield”** has the meaning given in the relevant Final Terms;

**“Additional Business Centre(s)”** means the city or cities specified as such in the relevant Final Terms;

**“Additional Financial Centre(s)”** means the city or cities specified as such in the relevant Final Terms;

**“Authorised Signatories”** has the meaning given in the Trust Deed;

**“Benchmark Gilt”** means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, following consultation with the Issuer and with the advice of the Reference Banks, may determine to be appropriate;

**“Benchmark Gilt Rate”** means, in respect of a Reset Period and subject to Condition 5(E) (*Fallback – Benchmark Gilt Rate*), the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (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 Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If four quotations are provided, the Benchmark Gilt Rate will be 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 Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided;

**“Broken Amount”** means, in respect of any Notes, the amount (if any) that is specified in the relevant Final Terms;

**“Business Day”** means:

- (A) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (B) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

**“Business Day Convention”**, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (A) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (B) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (C) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (D) **“FRN Convention”, “Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
  - (1) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (2) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (3) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (E) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**“Calculation Amount”** has the meaning given in the relevant Final Terms;

**“Capital Regulations”** means, at any time, the laws, regulations, requirements, standards, guidelines and policies relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity for credit institutions of either (A) the Competent Authority and/or (B) any other national or European authority, in each case then in effect in the United Kingdom (or in such other jurisdiction in which the Issuer may be organised or domiciled) and applicable to the Group, including, as at the date hereof, CRD IV and related technical standards;

**“CMS Rate”** means the Relevant Swap Rate for swap transactions in the Reference Currency with a maturity of the Designated Maturity (expressed as a percentage rate per annum) which appears on the Relevant Screen Page as at (A) the Determination Time specified in the relevant Final Terms or (B) if no Determination Time is specified in the relevant Final Terms, 11.00 a.m. (Relevant Financial Centre time) on the Interest Determination Date in question, all as determined by the Calculation Agent;

**“CMS Rate Fixing Day”** means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in each CMS Rate Fixing Centre specified in the relevant Final Terms;

**“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;

**“Coupon Sheet”** means, in respect of a Note, a coupon sheet relating to the Note;

**“Couponholders”** means the holders of the Coupons (whether or not attached to the relevant Notes);

**“CRD IV”** means the legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time, and the CRD IV Regulation;

**“CRD IV Regulation”** means Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as the same may be amended or replaced from time to time;

**“Day Count Fraction”** means, in respect of the calculation of an amount for any period of time (the **“Calculation Period”**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(A) if **“Actual/Actual (ICMA)”** is so specified, means:

- (1) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (a) the actual number of days in such Regular Period and (b) the number of Regular Periods in any year; and
- (2) where the Calculation Period is longer than one Regular Period, the sum of:
  - (a) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (b) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(B) if **“Actual/Actual (ISDA)”** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and

(2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (C) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (D) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (E) if “**30/360**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis is as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (F) if “**30E/360**” or “**Eurobond Basis**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis is as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (G) if “**30E/360 (ISDA)**” is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis is as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless (1) that day is the last day of February or (2) such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (1) that day is the last day of February but not the Maturity Date or (2) such number would be 31, in which case D<sub>2</sub> will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from (and including) the first day of the Calculation Period to (but excluding) the last day of the Calculation Period;

“**dealing day**” means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

“**Designated Maturity**” shall have the meaning specified in the relevant Final Terms;

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;



**“Early Termination Amount”** means, in respect of any Note, its principal amount or such other amount as may be specified in these Conditions or the relevant Final Terms;

**“EURIBOR”** means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Eurozone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

**“Excluded Change”** means any amendment to, or change in, the Loss Absorption Regulations to implement the proposals (other than the Excluded Proposal) in the form originally announced by the European Commission on 23 November 2016 in order to further strengthen the resilience of EU banks (the **“Proposals”**) or, if the Proposals have been amended as at the Issue Date of the first Tranche of Notes of the relevant Series, in the form as so amended as at such date;

**“Excluded CIR Tax Change”** means the taking effect or enactment of legislation which limits, by reference to specified measures of adjusted corporation tax earnings, the amount of tax relief that companies can claim for UK corporation tax purposes in respect of their UK interest expenses, and disallows deductibility for UK corporation tax purposes of corporate interest expense above such limits, except in circumstances where, in the opinion of independent tax advisers of international repute appointed by the Issuer, the relevant disallowance results from (A) legislation which is enacted in a form which is not identical in all material respects to Schedule 10 (Corporate Interest Restriction) of the draft Finance (No.2) Bill 2017 as published on 20 March 2017 (the **“20 March 2017 draft CIR Rules”**); (B) legislation separate from or additional or supplemental to the 20 March 2017 draft CIR Rules; (C) any modification or amendment to any such legislation subsequent to its enactment; or (D) any published practice of any tax authority published subsequently to the 20 March 2017 draft CIR Rules;

**“Excluded Proposal”** means the proposal for Article 72b(2)(o) contained in the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012 announced by the European Commission on 23 November 2016 requiring the contractual provisions of eligible liabilities to require that, where the resolution authority exercises write down and conversion powers in accordance with Article 48 of Directive 2014/59/EU, the principal amount of such eligible liabilities will be written down on a permanent basis or such eligible liabilities will be converted to Common Equity Tier 1 instruments;

**“Extraordinary Resolution”** has the meaning given in the Trust Deed;

**“Final Redemption Amount”** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**“First Interest Payment Date”** means the date specified in the relevant Final Terms;

**“First Margin”** means the margin specified as such in the relevant Final Terms;

**“First Reset Date”** means the date specified in the relevant Final Terms;

**“First Reset Period”** means the period from (and including) the First Reset Date until (but excluding) the first Subsequent Reset Date or, if a Subsequent Reset Date is not specified in the relevant Final Terms, the Maturity Date;

**“First Reset Rate of Interest”** means, in respect of the First Reset Period and subject to Condition 5(D) (*Fallback – Mid-Swap Rate*) and 5(E) (*Fallback – Benchmark Gilt Rate*) (as applicable), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate and the First Margin;

**“Fixed Coupon Amount”** has the meaning given in the relevant Final Terms;

**“Fixed Rate Note”** means a Note on which interest is calculated at a fixed rate payable in arrear on a fixed date or dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant dealer(s) (as indicated in the relevant Final Terms);

**“Floating Rate Note”** means a Note on which interest is calculated at a floating rate payable at intervals of one, two, three, six or 12 months or at such other intervals as may be agreed between the Issuer and the relevant dealer(s) (as indicated in the relevant Final Terms);

**“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 Capital Regulations) of which the Issuer is part from time to time;

**“Holder”**, in the case of Bearer Notes, has the meaning given in Condition 2(B) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 2(D) (*Title to Registered Notes*);

**“Initial Rate of Interest”** has the meaning specified in the relevant Final Terms;

**“Interest Amount”** means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

**“Interest Commencement Date”** means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

**“Interest Determination Date”** shall mean:

- (A) if the Reference Rate is not CMS Rate, the date specified as such in the relevant Final Terms, or if none is so specified:
  - (1) if the Reference Rate is LIBOR, the second London business day prior to the start of each Interest Period; or

- (2) if the Reference Rate is EURIBOR, the second day on which TARGET2 is open prior to the start of each Interest Period; or
- (B) if the Reference Rate is CMS Rate, the date specified as such in the relevant Final Terms, provided that if any day specified as an Interest Determination Date in the relevant Final Terms is not a CMS Rate Fixing Day, the relevant Interest Determination Date shall be the immediately preceding CMS Rate Fixing Day;

**“Interest Payment Date”** means the First Interest Payment Date and any date or dates specified as such in the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (A) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (B) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**“Interest Period”** means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the first Interest Payment Date or next Interest Payment Date (as the case may be);

**“ISDA Definitions”** means the 2006 ISDA Definitions (as amended and updated as at the Issue Date of the first Tranche of Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

**“Issue Date”** has the meaning given in the relevant Final Terms;

**“Junior Securities”** has the meaning given in Condition 3(B)(2) (*Tier 2 Capital Notes*);

**“LIBOR”** means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

a **“Loss Absorption Disqualification Event”** shall be deemed to occur if as a result of any amendment to, or change in, any Loss Absorption Regulation, or any change in the application or official interpretation of any Loss Absorption Regulation, in any such case becoming effective on or after the Issue Date of the first Tranche of Notes of the relevant Series (in each case other than an Excluded Change), the Notes are or (in the opinion of the Issuer or the Competent Authority

and/or the Resolution Authority (as appropriate)) are likely to be fully or (if so specified in the relevant Final Terms) partially excluded from the Issuer's and/or the Group's minimum requirements for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer and/or the Group and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the Notes from the relevant minimum requirement(s) is due to the remaining maturity of the Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer and/or the Group on the Issue Date of the first Tranche of Notes of the relevant Series;

**"Loss Absorption Regulations"** means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom, the Competent Authority, the Resolution Authority, the Financial Stability Board and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom and applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by the Competent Authority and/or the Resolution Authority from time to time (whether or not such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer or to the Group);

**"Margin"** has the meaning given in the relevant Final Terms;

**"Maturity Date"** has the meaning given in the relevant Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Mid-Market Swap Rate"** means, for any Reset Period, the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency, such day count basis as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (A) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (B) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (C) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the relevant Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency, such day count basis as determined by the Calculation Agent);

**"Mid-Market Swap Rate Quotation"** means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

**“Mid-Swap Floating Leg Benchmark Rate”** means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro or the Reference Rate as specified in the relevant Final Terms;

**“Mid-Swap Maturity”** has the meaning given in the relevant Final Terms;

**“Mid-Swap Rate”** means, in relation to a Reset Determination Date and subject to Condition 5(D) (*Fallback – Mid-Swap Rate*), either:

(A) if Single Mid-Swap Rate is specified in the relevant Final Terms, the rate for swaps in the Specified Currency:

(1) with a term equal to the relevant Reset Period; and

(2) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page; or

(B) if Mean Mid-Swap Rate is specified in the relevant Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(1) with a term equal to the relevant Reset Period; and

(2) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the Principal Financial Centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent;

**“Minimum Redemption Amount”** has the meaning given in the relevant Final Terms;

**“Noteholder”**, in the case of Bearer Notes, has the meaning given in Condition 2(B) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 2(D) (*Title to Registered Notes*);

**“Optional Redemption Amount (Call)”** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**“Optional Redemption Amount (Loss Absorption Disqualification Event)”** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**“Optional Redemption Amount (Put)”** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**“Optional Redemption Amount (Regulatory Event)”** means, in respect of any Tier 2 Capital Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**“Optional Redemption Date (Call)”** has the meaning given in the relevant Final Terms;

**“Optional Redemption Date (Put)”** has the meaning given in the relevant Final Terms;

**“Parity Securities”** has the meaning given in Condition 3(B)(1) (*Tier 2 Capital Notes*);

**“Payment Business Day”** means:

- (A) if the currency of payment is euro, any day (other than a Saturday, Sunday or public holiday) which is:
  - (1) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies or (b) commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent has its Specified Office; and
  - (2) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (B) if the currency of payment is not euro, any day (other than a Saturday, Sunday or public holiday) which is:
  - (1) a day on which (a) banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies or (b) commercial banks are open for general business (including dealings in foreign currencies) in the city where the Principal Paying Agent has its Specified Office; and
  - (2) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

**“person”** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**“Principal Financial Centre”** means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (A) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;
- (B) in relation to Australian dollars, it means Sydney; and
- (C) in relation to New Zealand Dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**“Put Option Notice”** means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**“Put Option Receipt”** means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**“Rate of Interest”** means (A) in the case of Notes other than Reset Notes, the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms; and (B) in the case of Reset Notes, the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

**“Redemption Amount”** means, as appropriate, the Final Redemption Amount, the Early Termination Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Loss Absorption Disqualification Event), the Optional Redemption Amount (Put), the Optional Redemption Amount (Regulatory Event) or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

**“Reference Banks”** (A) in the case of Notes other than Reset Notes and Floating Rate Notes where the Reference Rate is CMS Rate, has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate; (B) in the case of Floating Rate Notes where the Reference Rate is CMS Rate, (1) where the Reference Currency is euro, the principal office of four leading swap dealers in the Eurozone inter-bank market, (2) where the Reference Currency is pounds sterling, the principal London office of four leading swap dealers in the London inter-bank market, (3) where the Reference Currency is U.S. dollars, the principal New York City office of four leading swap dealers in the New York City inter-bank market, or (4) in the case of any other Reference Currency, the principal Relevant Financial Centre office of four leading swap dealers in the Relevant Financial Centre inter-bank market, in each case as selected by the Issuer; and (C) in the case of Reset Notes, has the meaning given in the relevant Final Terms or, if none (1) in the case of the calculation of a Mid-Market Swap Rate, four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute or (2) in the case of the calculation of a Benchmark Gilt Rate, four brokers of gilts and/or gilt-edged market makers as selected by the Issuer on the advice of an investment bank of international repute;

**“Reference Currency”** has the meaning given in the relevant Final Terms;

**“Reference Price”** has the meaning given in the relevant Final Terms;

**“Reference Rate”** shall mean (A) LIBOR for the relevant currency specified in the relevant Final Terms or (B) EURIBOR, in each case for the relevant period as specified in the relevant Final Terms;

**“Regular Period”** means:

- (A) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and

each successive period from (and including) one Interest Payment Date to (but excluding) the next Interest Payment Date;

- (B) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from (and including) a Regular Date falling in any year to (but excluding) the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (C) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from (and including) a Regular Date falling in any year to (but excluding) the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

a “**Regulatory Event**” shall be deemed to occur if there is a change in the regulatory classification of the Tier 2 Capital Notes that becomes effective on or after the Issue Date of the first Tranche of the Tier 2 Capital Notes that results, or would be likely to result, in the whole or any part of the outstanding principal amount of the Tier 2 Capital Notes at any time being excluded from the Tier 2 Capital of the Group;

“**Relevant Date**” means, in relation to any payment, whichever is the later of (A) the date on which the payment in question first becomes due and (B) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying 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;

“**Relevant Financial Centre**” has the meaning given in the relevant Final Terms;

“**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, premium (if any) and interest on the Notes;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (or any successor or replacement page, section or other part of a particular information service, including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Swap Rate**” means:

- (A) where the Reference Currency is euro, the mid-market annual swap rate determined on the basis of the arithmetic mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating euro interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of



good credit in the swap market, where the floating leg, in each case calculated on an Actual/360 day count basis, is equivalent to EUREURIBOR-Reuters (as defined in the ISDA Definitions) with a designated maturity determined by the Calculation Agent by reference to standard market practice and/or the ISDA Definitions;

- (B) where the Reference Currency is pounds sterling, the mid-market semi-annual swap rate determined on the basis of the arithmetic mean of the bid and offered rates for the semi-annual fixed leg, calculated on an Actual/365 (Fixed) day count basis, of a fixed-for-floating pounds sterling interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, in each case calculated on an Actual/365 (Fixed) day count basis, is equivalent (1) if the Designated Maturity is greater than one year, to GBP-LIBOR-BBA (as defined in the ISDA Definitions) with a designated maturity of six months or (B) if the Designated Maturity is one year or less, to GBP-LIBOR-BBA with a designated maturity of three months;
- (C) where the Reference Currency is U.S. dollars, the mid-market semi-annual swap rate determined on the basis of the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a term equal to the Designated Maturity commencing on the first day of the relevant Interest Period and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to USD-LIBOR-BBA (as defined in the ISDA Definitions) with a designated maturity of three months; and
- (D) where the Reference Currency is any other currency, the mid-market swap rate as determined by the Calculation Agent in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice;

**“Relevant Time”** has the meaning given in the relevant Final Terms;

**“Representative Amount”** means an amount that is representative for a single transaction in the relevant market at the relevant time;

**“Reset Date”** means the First Reset Date and each Subsequent Reset Date (as applicable);

**“Reset Determination Date”** means, unless otherwise specified in the relevant Final Terms, the second Business Day prior to each relevant Reset Date;

**“Reset Note”** means a Note which bears interest at a rate of interest which is recalculated at specified intervals;

**“Reset Period”** means the First Reset Period or a Subsequent Reset Period, as the case may be;

**“Reset Rate”** means (A) if “Mid-Swap Rate” is specified in the relevant Final Terms, the relevant Mid-Swap Rate or (B) if “Benchmark Gilt Rate” is specified in the relevant Final Terms, the relevant Benchmark Gilt Rate;

**“Reserved Matters”** has the meaning given in the Trust Deed;

**“Resolution Authority”** means the Bank of England 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 recovery and/or resolution of the of the Issuer and/or the Group;

**“Senior Creditors”** means creditors of the Issuer (A) who are unsubordinated creditors of the Issuer; and (B) who are subordinated creditors of the Issuer (whether only in the event of a winding-up of the Issuer or otherwise) other than (1) those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders and relevant Couponholders or (2) those whose claims are in respect of Parity Securities or Junior Securities;

**“Specified Currency”** has the meaning given in the relevant Final Terms;

**“Specified Denomination(s)”** has the meaning given in the relevant Final Terms;

**“Specified Office”** has the meaning given in the Agency Agreement;

**“Specified Period”** has the meaning given in the relevant Final Terms;

**“Subsequent Margin”** means the margin(s) specified as such in the relevant Final Terms;

**“Subsequent Reset Date”** means the date or dates specified in the relevant Final Terms;

**“Subsequent Reset Period”** means the period from (and including) the first Subsequent Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date;

**“Subsequent Reset Rate of Interest”** means, in respect of any Subsequent Reset Period and subject to Condition 5(D) (*Fallback – Mid-Swap Rate*) and 5(E) (*Fallback – Benchmark Gilt Rate*) (as applicable), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Reset Rate and the relevant Subsequent Margin;

**“Subsidiary”** means each subsidiary undertaking (as defined under Section 1159 of the Companies Act 2006) for the time being of the Issuer;

**“Talon”** means a talon for further Coupons;

**“TARGET2”** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

**“TARGET Settlement Day”** means any day on which TARGET2 is open for the settlement of payments in euro;

**“Tax Event”** has the meaning given in Condition 9(C) (*Redemption for Tax Event*);

**“Tier 1 Capital”** means Tier 1 Capital for the purposes of the Capital Regulations;

**“Tier 2 Capital”** means Tier 2 Capital for the purposes of the Capital Regulations;

**“Winding-Up”** means if:

- (A) 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 Noteholders and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);
- (B) following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend; or
- (C) liquidation or dissolution of the Issuer or any procedure similar to that described in (A) or (B) above is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009;

**“Winding-Up Event”** means with respect to the Notes, if (1) 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); or (2) following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend; or (3) liquidation or dissolution of the Issuer or any procedure similar to that described in (1) or (2) above is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009; and

**“Zero Coupon Note”** means a Note specified as such in the relevant Final Terms.

(B) ***Interpretation:*** In these Conditions:

- (1) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (2) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (3) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (4) any reference to principal shall be deemed to include the Redemption Amount, (in the case of Senior Notes only) any Additional Amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

- (5) any reference to interest shall be deemed to include any Additional Amounts which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (6) references to Notes being “outstanding” shall be construed in accordance with the Trust Deed; and
- (7) if an expression is stated in Condition 1(A) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “Not Applicable” then such expression is not applicable to the Notes.

## 2. Form, Denomination, Title and Transfer

- (A) **Bearer Notes:** Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (B) **Title to Bearer Notes:** Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (C) **Registered Notes:** Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.
- (D) **Title to Registered Notes:** The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.
- (E) **Ownership:** The Holder of any Note or Coupon shall (except as otherwise required by law) 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 other interest therein, any writing thereon or, in the case of Registered Notes, on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Holder.
- (F) **Transfers of Registered Notes:** Subject to Conditions 2(J) (*Closed periods*) and 2(K) (*Regulations concerning transfers and registration*), a Registered Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the

Registered Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

- (G) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (H) **Registration and delivery of Certificates:** Within five business days of the surrender of a Certificate in accordance with Condition 2(F) (*Transfers of Registered Notes*), the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2(H) (*Registration and delivery of Certificates*), "**business day**" means a day on which commercial banks and foreign exchange markets settle payments generally in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (I) **No charge:** The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (J) **Closed periods:** Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes or once notice of redemption of the Notes has been given in accordance with Condition 9 (*Redemption and Purchase*).
- (K) **Regulations concerning transfers and registration:** All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered 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 mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.
- (L) **No exchange:** Registered Notes may not be exchanged for Bearer Notes and Bearer Notes may not be exchanged for Registered Notes.

### 3. Status

The Notes are either senior Notes (“**Senior Notes**”) or tier 2 capital Notes (“**Tier 2 Capital Notes**”), as specified in the relevant Final Terms.

#### (A) **Senior Notes**

The Senior Notes (and the Coupons relating thereto, if any) constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer which rank *pari passu* without any preference among themselves and, in the event of a Winding-Up, will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law.

#### (B) **Tier 2 Capital Notes**

The Tier 2 Capital Notes (and the Coupons relating thereto, if any) constitute direct unsecured and subordinated obligations of the Issuer ranking *pari passu* without any preference among themselves.

On a Winding-Up, claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) and the Holders of Tier 2 Capital Notes and any related Coupons against the Issuer in respect of or arising under the Tier 2 Capital Notes and any related Coupons (including any damages awarded for breach of any obligations in respect of the Tier 2 Capital Notes or any related Coupons) will be subordinated in the manner provided herein and in the Trust Deed to the claims of all Senior Creditors but shall rank:

- (1) at least *pari passu* with all claims of holders of all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith (“**Parity Securities**”); and
- (2) in priority to the claims of holders of:
  - (a) all obligations of the Issuer which rank or are expressed to rank, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which rank or are expressed to rank, junior to the claims in respect of the Tier 2 Capital Notes and any related Coupons, including (without limitation) obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith; and
  - (b) all classes of share capital of the Issuer(together, the “**Junior Securities**”).

Nothing in this Condition 3(B) (*Status*) 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.

(C) **No set-off**

The provisions of this Condition 3(C) (*No set-off*) shall have effect in relation to (1) any Series of Senior Notes where the relevant Final Terms specify that Condition 3(C) (*No set-off*) applies and (2) each Series of Tier 2 Capital Notes.

Subject to applicable law, no Holder 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, any Notes or related Coupons and every Holder waives, and shall be treated for all purposes as if it had waived, any right that it might otherwise have to set-off, or to raise by way of counterclaim any of its claims in respect of any Notes or related Coupons, against or in respect of any of its obligations to the Issuer, the Trustee or any other person. Notwithstanding the preceding sentence, if any of the amounts due and payable to any Holder by the Issuer in respect of, arising under or in connection with the Notes or related Coupons is discharged by set-off, such Holder 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, administrator or, as appropriate, other insolvency official 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, administrator or, as appropriate, other insolvency official of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

4. **Fixed Rate Note Provisions**

- (A) **Application:** This Condition 4 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (B) **Accrual of interest:** The Notes bear interest from (and including) the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 10 (*Payments – Bearer Notes*) and 11 (*Payments – Registered Notes*) (as applicable). Each Note will cease to bear interest from (and including) the due date for redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 4 (*Fixed Rate Note Provisions*) (as well after as before judgment) until (and including) whichever is the earlier of (1) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (2) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (C) **Fixed Coupon Amount:** The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination. Payments of interest on any Interest Payment Date will, if so specified in the relevant Final Terms, amount to the Broken Amount so specified.

- (D) **Calculation of interest amount.** The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

## 5. Reset Note Provisions

- (A) **Application:** This Condition 5 (*Reset Note Provisions*) is applicable to the Notes only if the Reset Note Provisions are specified in the relevant Final Terms as being applicable.

- (B) **Accrual of interest.** The Notes bear interest:

- (1) from (and including) the Interest Commencement Date specified in the relevant Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Rate of Interest;
- (2) from (and including) the First Reset Date to (but excluding) the first Subsequent Reset Date or, if a Subsequent Reset Date is not specified in the relevant Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and
- (3) for each Subsequent Reset Period thereafter (if any), at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

payable, in each case, in arrear on each Interest Payment Date, subject as provided in Conditions 10 (*Payments – Bearer Notes*) and 11 (*Payments – Registered Notes*) (as applicable). Each Note will cease to bear interest from (and including) the due date for redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (*Reset Note Provisions*) (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

- (C) **Rate of Interest.** The Rate of Interest applicable for each Reset Period shall be determined by the Calculation Agent at or as soon as practicable after each time at which the Rate of Interest is to be determined on each Reset Determination Date. The Interest Amount payable on the Notes shall be calculated in accordance with the provisions for calculating amounts of interest in Condition 4 (*Fixed Rate Note Provisions*) and, for such purposes, references in Condition 4 (*Fixed Rate Note Provisions*) to “Fixed Rate Notes” shall be deemed to be to “Reset Notes” and Condition 4 (*Fixed Rate Note Provisions*) shall be construed accordingly.
- (D) **Fallback – Mid-Swap Rate:** Where the Reset Rate is specified as “Mid-Swap Rate” in the relevant Final Terms and if on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on



the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the Principal Financial Centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations on the Reset Determination Date, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation on the Reset Determination Date, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the Reset Period shall be the sum of such Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent. If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 5(D) (*Fallback - Mid-Swap Rate*), the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

- (E) ***Fallback – Benchmark Gilt Rate***: Where the Reset Rate is specified as “Benchmark Gilt Rate” in the relevant Final Terms and where no quotations with respect to the Benchmark Gilt are provided by the relevant Reference Banks, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the Rate of Interest as at the last preceding Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.
- (F) ***Publication***: The Calculation Agent will cause each Rate of Interest determined by it and any other amount(s) required to be determined by it together with the relevant payment date(s), to be notified to the Issuer, the Paying Agents, the Trustee and each competent authority and/or stock exchange by which the Notes have then been admitted to listing and/or trading as soon as possible after such determination but in (in the case of each Rate of Interest and Interest Payment Date) not later than the relevant Reset Date. Notice thereof shall also be given to the Noteholders in accordance with Condition 19 (*Notices*) as soon as possible after the determination or calculation thereof.
- (G) ***Notifications etc.***: All notifications, opinions, communications, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 (*Reset Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Noteholders and the Couponholders. No Noteholder or Couponholder shall be entitled to proceed against the Calculation Agent, the Trustee, the Paying Agents or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions hereunder, including without limitation in respect of any notification, opinion, communication, determination, certificate, calculation, quotation or decision given, expressed or made for the purposes of this Condition 5 (*Reset Note Provisions*).

## 6. Floating Rate Note Provisions

- (A) **Application:** This Condition 6 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (B) **Accrual of interest:** The Notes bear interest from (and including), the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Conditions 10 (*Payments – Bearer Notes*) and 11 (*Payments – Registered Notes*) (as applicable). Each Note will cease to bear interest from (and including) the due date for redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (*Floating Rate Note Provisions*) (as well after as before judgment) until (and including) whichever is the earlier of (1) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (2) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (C) **Screen Rate Determination – Floating Rate Notes other than CMS-Linked Notes:** If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined and the relevant Final Terms do not specify that the Reference Rate is the CMS Reference Rate, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
- (1) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (2) if Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
    - (a) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
    - (b) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period,provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;
  - (3) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

- (4) if, in the case of (1) above, such rate does not appear on that page or, in the case of (3) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (a) request each of the Reference Banks to provide to the Calculation Agent a quotation of the Reference Rate as at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (b) determine the arithmetic mean of such quotations; and
- (5) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (D) **Screen Rate Determination – Floating Rate Notes which are CMS-Linked Notes:** If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined and the relevant Final Terms specify that the Reference Rate is the CMS Reference Rate, the Rate of Interest applicable to the Notes for each Interest Period will be the CMS Rate plus or minus (as indicated in the relevant Final Terms) the Margin, as determined by the Calculation Agent.

If the Relevant Screen Page is not available, the Calculation Agent shall request each of the Reference Banks to provide it with its quotation for the Relevant Swap Rate (expressed as a percentage rate per annum) as at approximately (1) the Determination Time specified in the relevant Final Terms or (2) if no Determination Time is specified in the relevant Final Terms, 11.00 a.m. (Relevant Financial Centre time) on the Interest Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent such quotations as aforesaid, the CMS Rate for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the quotations, 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 on any Interest Determination Date at the Determination Time or 11.00 a.m. (Relevant Financial Centre time) (as applicable) one only or none of the Reference Banks provides the Calculation Agent with such quotations as aforesaid, the CMS Rate shall be determined by the Issuer in its sole and absolute discretion on a commercial basis as it shall consider appropriate and in accordance with standard market practice.

(E) **ISDA Determination:** If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the relevant Final Terms;
- (2) the Designated Maturity is a period specified in the relevant Final Terms;
- (3) the relevant Reset Date is either (a) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (b) in any other case, as specified in the relevant Final Terms; and
- (4) if Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
  - (a) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
  - (b) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

The expressions “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” in this Condition 6(E) (*ISDA Determination*) have the respective meanings given to them in the ISDA Definitions.

(F) **Maximum or Minimum Rate of Interest:** If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

- (G) **Calculation of Interest Amount:** The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (H) **Publication:** The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Paying Agents, the Trustee and each competent authority and/or stock exchange by which the Notes have then been admitted to listing and/or trading as soon as possible after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also be given to the Noteholders in accordance with Condition 19 (*Notices*) as soon as possible after the determination or calculation thereof. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (I) **Notifications etc.:** All notifications, opinions, communications, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6 (*Floating Rate Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Noteholders and the Couponholders. No Noteholder or Couponholder shall be entitled to proceed against the Calculation Agent, the Trustee, the Paying Agents or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions hereunder, including without limitation in respect of any notification, opinion, communication, determination, certificate, calculation, quotation or decision given, expressed or made for the purposes of this Condition 6 (*Floating Rate Note Provisions*).

## 7. Zero Coupon Note Provisions

- (A) **Application:** This Condition 7 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (B) **Late payment on Zero Coupon Notes:** If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
- (1) the Reference Price; and

- (2) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

## 8. Fixed/Floating Rate Notes

- (A) **Application:** This Condition 8 (*Fixed/Floating Rate Notes*) is applicable to the Notes only if the Fixed Rate Note Provisions and the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (B) **Fixed/Floating Rate:** The Issuer may issue Notes (1) that the Issuer may elect to convert on the date set out in the relevant Final Terms from a Fixed Rate Note to a Floating Rate Note, or from a Floating Rate Note to a Fixed Rate Note or (2) that will automatically change from a Fixed Rate Note to a Floating Rate Note, or from a Floating Rate Note to a Fixed Rate Note on the date set out in the relevant Final Terms.

## 9. Redemption and Purchase

- (A) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Conditions 10 (*Payments – Bearer Notes*) and 11 (*Payments – Registered Notes*) (as applicable).
- (B) **Redemption at the option of the Issuer:** Subject to Condition 9(L) (*Restriction on Early Redemption or Repurchase of the Notes*), if the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 19 (*Notices*) and to the Trustee, or such other period(s) as may be specified in the relevant Final Terms, (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the applicable amount specified in the relevant Final Terms (together with any accrued but unpaid interest to (but excluding) the relevant Optional Redemption Date (Call)) at the Optional Redemption Amount (Call)).
- (C) **Redemption for Tax Event:** Subject to Condition 9(L) (*Restriction on Early Redemption or Repurchase of the Notes*), the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time at their Early Redemption Amount (Tax), together with any accrued but unpaid interest to the date fixed for redemption, provided that:
- (1) the Issuer provides not less than 30 days' nor more than 60 days' prior notice to the Trustee and the Noteholders in accordance with Condition 19 (*Notices*) (such notice being irrevocable) specifying the date fixed for such redemption; and

- (2) immediately before giving such notice, the Issuer has determined that 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 any change in the official application of those laws or regulations which change or amendment becomes effective on or after the Issue Date of the first Tranche of Notes of the relevant Series, including a decision of any court or tribunal which becomes effective on or after the Issue Date of the first Tranche of Notes of the relevant Series (other than, in the case of paragraph (b) below only, as a result of an Excluded CIR Tax Change):
- (a) the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, Additional Amounts as provided or referred to in Condition 12 (*Taxation*);
  - (b) 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;
  - (c) the Issuer is not, or would not be, as a result of the Notes being in issue, 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); or
  - (d) 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 or conversion of the Notes into shares, or both as a result of the exercise of any regulatory powers (including, under the Banking Act 2009),

(each a “**Tax Event**”).

Prior to giving notice of redemption in accordance with this Condition 9(C) (*Redemption for Tax Event*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions for redeeming the Notes pursuant to this Condition 9(C) (*Redemption for Tax Event*) have been met. Such certificate shall be treated by the Issuer, the Trustee, the Noteholders and all other interested parties as correct, conclusive, binding and sufficient evidence thereof.

Upon the expiry of any such notice as is referred to in this Condition 9(C) (*Redemption for Tax Event*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(C) (*Redemption for Tax Event*).

- (D) **Redemption for Regulatory Event.** In the case of any Series of Tier 2 Capital Notes only and subject to Condition 9(L) (*Restriction on Early Redemption or Repurchase of the Notes*), if a Regulatory Event has occurred, the Issuer may, at its option, redeem the Tier 2 Capital Notes, in whole but not in part, at the relevant Optional Redemption Amount (Regulatory Event), together with any accrued but unpaid interest to (but excluding) the date fixed for redemption, provided that the

Issuer provides not less than 30 days' nor more than 60 days' prior notice to the Trustee and the Holders of the Tier 2 Capital Notes in accordance with Condition 19 (*Notices*) (such notice being irrevocable) specifying the date fixed for such redemption.

Prior to giving notice of redemption in accordance with this Condition 9(D) (*Redemption for Regulatory Event*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions for redeeming the Notes pursuant to this Condition 9(D) (*Redemption for Regulatory Event*) have been met. Such certificate shall be treated by the Issuer, the Trustee, the Holders and all other interested parties as correct, conclusive, binding and sufficient evidence thereof.

Upon the expiry of any such notice as is referred to in this Condition 9(D) (*Redemption for Regulatory Event*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(D) (*Redemption for Regulatory Event*).

- (E) ***Redemption for Loss Absorption Disqualification Event.*** In the case of any Series of Senior Notes only and subject to Condition 9(L) (*Restriction on Early Redemption or Repurchase of the Notes*), if Loss Absorption Disqualification Call is specified in the relevant Final Terms as being applicable and a Loss Absorption Disqualification Event has occurred, the Issuer may, at its option, redeem the Senior Notes, in whole but not in part, at the relevant Optional Redemption Amount (Loss Absorption Disqualification Event), together with any accrued but unpaid interest to (but excluding) the date fixed for redemption, provided that the Issuer provides not less than 30 days' nor more than 60 days' prior notice to the Trustee and the Holders of the Notes in accordance with Condition 19 (*Notices*) (such notice being irrevocable) specifying the date fixed for such redemption.

Prior to giving notice of redemption in accordance with this Condition 9(E) (*Redemption for Loss Absorption Disqualification Event*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions for redeeming the Notes pursuant to this Condition 9(E) (*Redemption for Loss Absorption Disqualification Event*) have been met. Such certificate shall be treated by the Issuer, the Trustee, the Holders and all other interested parties as correct, conclusive, binding and sufficient evidence thereof.

Upon the expiry of any such notice as is referred to in this Condition 9(E) (*Redemption for Loss Absorption Disqualification Event*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(E) (*Redemption for Loss Absorption Disqualification Event*).

This Condition 9(E) (*Redemption for Loss Absorption Disqualification Event*) will not apply to the extent such application would cause a Loss Absorption Disqualification Event to occur.

- (F) ***Redemption at the option of Noteholders:*** In the case of any Series of Senior Notes only, if the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice (which notice shall be irrevocable) at the relevant Optional Redemption Amount (Put) together with any accrued but unpaid interest to (but excluding) such date. No Series of Tier 2 Capital Notes shall contain a Put Option. In order to exercise the option contained in this Condition 9(F) (*Redemption at the option of Noteholders*), the Holder of a Note must, not less than 30 days nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s)



as may be specified in the relevant Final Terms), deposit with any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) such Note together with any unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent or the Registrar (as the case may be) with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(F) (*Redemption at the option of Noteholders*), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent or Registrar (as the case may be) shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent or the Registrar (as the case may be) in accordance with this Condition 9(F) (*Redemption at the option of Noteholders*), the depositor of such Note and not such Paying Agent or the Registrar (as the case may be) shall be deemed to be the Holder of such Note for all purposes. The Holder of a Note may not exercise such option in respect of any Note which is the subject of an exercise by the Issuer of its option to redeem such Note under Condition 9(B) (*Redemption at the option of the Issuer*), 9(C) (*Redemption for Tax Event*) or 9(G) (*Partial redemption*) and any exercise of the first-mentioned option in such circumstances shall have no effect.

- (G) **Partial redemption:** If the Notes are to be redeemed in part only on any date in accordance with Condition 9(B) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place and in such manner as the Principal Paying Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority and/or stock exchange by which the Notes have then been admitted to listing and/or trading and the notice to Noteholders referred to in Condition 9(B) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (H) **No other redemption:** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(A) (*Scheduled redemption*) to 9(G) (*Partial redemption*) above.
- (I) **Early redemption of Zero Coupon Notes:** Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
  - (1) the Reference Price; and
  - (2) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding)

the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the relevant Final Terms for the purposes of this Condition 9(I) (*Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

- (J) **Purchase:** Subject to Condition 9(L) (*Restriction on Early Redemption or Repurchase of the Notes*) and notwithstanding Condition 3 (*Status*), the Issuer or any of its Subsidiaries may at any time purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise, provided that all unmatured Coupons are purchased therewith.
- (K) **Cancellation:** All Notes which are redeemed pursuant to this Condition 9 (*Redemption and Purchase*) will be cancelled. 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
- (L) **Restriction on Early Redemption or Repurchase of the Notes:** Notwithstanding any other provision in this Condition 9 (*Redemption and Purchase*), the Issuer may only redeem or repurchase the Notes (and give notice thereof to the Holders if required) pursuant to Conditions 9(B) (*Redemption at the option of the Issuer*), 9(C) (*Redemption for Tax Event*), 9(D) (*Redemption for Regulatory Event*), 9(E) (*Redemption for Loss Absorption Disqualification Event*) or 9(J) (*Purchase*) if:
- (1) it has obtained the Competent Authority's and/or the Resolution Authority's prior permission for the redemption or repurchase of the Notes, if and to the extent such permission is required by the Capital Regulations at such time;
  - (2) in the case of any redemption or repurchase of Notes, if and to the extent then required by the Capital Regulations at such time, either: (a) the Issuer has replaced the Notes with own funds instruments or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer (as determined by the Competent Authority in accordance with the Capital Regulations); or (b) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds and eligible liabilities of the Issuer would, following such redemption or repurchase, exceed its minimum capital requirements (including any capital buffer requirements) and eligible liabilities requirements by a margin that the Competent Authority considers necessary in accordance with the Capital Regulations at such time;
  - (3) in respect of any redemption of Tier 2 Capital Notes proposed to be made prior to the fifth anniversary of the Issue Date of the first Tranche of such Tier 2 Capital Notes pursuant to Condition 9(C) (*Redemption for Tax Event*) or 9(D) (*Redemption for Regulatory Event*), if and to the extent required by the Capital Regulations at such time, (a) in the case of a redemption following the occurrence of a Regulatory Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the relevant change in the regulatory classification of the Tier 2 Capital Notes was not reasonably foreseeable as at the relevant Issue Date of the first Tranche of such Tier 2 Capital Notes; or (b) in the case of a redemption following the occurrence of a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that such Tax Event is material

and was not reasonably foreseeable as at the Issue Date of the first Tranche of such Tier 2 Capital Notes; and

- (4) the Issuer has complied with any other requirements contained in the Capital Regulations then in force which relate to the redemption or repurchase of the Notes.

## 10. Payments - Bearer Notes

This Condition 10 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

- (A) **Principal:** Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- (B) **Interest:** Payments of interest shall, subject to Condition 10(H) (*Payments other than in respect of matured Coupons*), be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 10(A) (*Principal*).
- (C) **Payments in New York City:** Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (1) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due; (2) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions; and (3) payment is permitted by applicable United States law.
- (D) **Payments subject to fiscal laws:** Save as provided in Condition 12 (*Taxation*), payments in respect of the Bearer Notes will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer or its Agents are or agree to be subject and the Issuer or any of its Paying Agents will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, and no commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (E) **Deductions for unmatured Coupons:** If the relevant Final Terms specify that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
  - (1) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; or

- (2) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
- (a) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; provided, however, that where this Condition 10(E)(2)(a) would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
  - (b) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 10(A) (*Principal*) against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

- (F) **Unmatured Coupons void:** If the relevant Final Terms specify that the Reset Note Provisions are applicable or that the Floating Rate Note Provisions are applicable, on the due date for redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(B) (*Redemption at the option of the Issuer*), 9(C) (*Redemption for Tax Event*), 9(D) (*Redemption for Regulatory Event*), 9(E) (*Redemption for Loss Absorption Disqualification Event*) or 9(F) (*Redemption at the option of Noteholders*) or 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (G) **Payments on business days:** If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (H) **Payments other than in respect of matured Coupons:** Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 10(C) (*Payments in New York City*)).
- (I) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (J) **Exchange of Talons:** On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if

appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

## 11. Payments - Registered Notes

This Condition 11 (*Payments – Registered Notes*) is only applicable to Registered Notes.

- (A) **Principal:** Payments of principal shall be made by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency 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 transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency 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:** Save as provided in Condition 12 (*Taxation*), payments in respect of the Registered Notes will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer or its Agents are or agree to be subject and the Issuer or any of its agents will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, and no commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (D) **Payments on business days:** Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated (1) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment 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 (2) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a Payment Business Day.
- (E) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Registered 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 Registered 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 15th day before the due date for such payment (the "**Record Date**").

## 12. Taxation

- (A) **Gross up:** All payments of principal and interest in respect of the Notes and the Coupons 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 present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts on payments of principal and interest (in the case of Senior Notes) or on payments of interest but not principal (in the case of Tier 2 Capital Notes) ("**Additional Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them in respect of principal and interest (in the case of Senior Notes) or in respect of interest only (in the case of Tier 2 Capital Notes) had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:
- (1) held by or on behalf of a Holder, which is liable to such Taxes in respect of such Note or Coupon by reason of its having some connection with the Relevant Jurisdiction other than the mere holding or ownership of the Note or Coupon;
  - (2) where (in the case of a payment of principal or interest on redemption) the relevant Note or Coupon or Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Amounts if it had presented or surrendered the relevant Note or Coupon or Certificate on the last day of such period of 30 days; or
  - (3) where the Holder of the relevant Note or Coupon 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.
- (B) **FATCA:** 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, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, any intergovernmental agreement, 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 Additional Amounts on account of any FATCA Withholding Tax.

## 13. Events of Default

- (A) The provisions of this Condition 13(A) shall have effect in relation to any Series of Senior Notes where the relevant Final Terms specify that Condition 13(B) does not apply.

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 Senior Notes or if so directed by an Extraordinary Resolution, shall (subject, in all cases, to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Senior Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with any accrued but unpaid interest without further action or formality:

- (1) *Non-payment*: if any principal or interest on the Senior Notes has not been paid within 7 days (in the case of principal) and within 14 days (in the case of interest) from the due date for payment, provided that the Issuer shall not be in default if it satisfies the Trustee during the 14 or 7 day period (as applicable) 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;
- (2) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Senior Notes or the Trust Deed and that breach has not (in the opinion of the Trustee) been remedied within 30 days of receipt of a written notice from the Trustee certifying that in its opinion the breach is materially prejudicial to the interests of the holders of such Senior Notes and requiring the same to be remedied; or
- (3) *Winding-up etc.*: a Winding-up Event occurs.

At any time after any Series of Senior Notes shall have become due and repayable in accordance with this Condition 13(A), the Trustee may at its discretion and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Senior 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, institute such proceedings or take such steps or actions as it may think fit against the Issuer to enforce payment.

- (B) The provisions of this Condition 13(B) shall have effect in relation to (1) any Series of Senior Notes where the relevant Final Terms specify that Condition 13(B) applies and (2) each Series of Tier 2 Capital Notes.

- (1) 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:
  - (a) *Non-payment*: if any principal or interest on the Notes has not been paid within 7 days (in the case of principal) and within 14 days (in the case of interest) 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 or 7 day period (as applicable) 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; or

- (b) *Limited remedies for breach of other obligations (other than non-payment)*: 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 for such Monetary Judgment in a Winding-Up.

Nothing in this Condition 13(B)(1) 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.

- (2) If a Winding-Up Event occurs, 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 pre-funded to its satisfaction) declare the Notes to be due and repayable immediately (and the Notes shall thereby become so due and repayable) at their Early Termination Amount together with any accrued but unpaid interest as provided in the Trust Deed and payments are subject to the subordination provisions set out in Condition 3 (*Status*).
- (C) The provisions of this Condition 13(C) shall have effect in relation to Senior Notes and Tier 2 Capital Notes.

No Holder of any Notes or related Coupons (if any) shall be entitled to institute any of the proceedings or take the steps or actions referred to in Condition 13(A) or 13(B) 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 Holder 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 so to do in respect of its Notes and/or Coupons. In the case of (1) any Series of Senior Notes where the relevant Final Terms specify that Condition 13(B) applies and (2) each Tier 2 Capital Notes, no remedy against the Issuer other than the institution of the proceedings referred to above or proving



and/or claiming in a Winding-Up, shall be available to the Trustee or the Holders of the Notes whether for the recovery of amounts owing in respect of the Notes or Coupons 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 Coupons or under the Trust Deed.

**14. Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within 10 years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest in respect of Registered Notes shall become void unless the relevant Certificates are surrendered for payment within 10 years of the appropriate Relevant Date.

**15. Replacement of Notes and Coupons**

If any Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and if the Notes are admitted to listing and/or trading by any competent listing authority and/or stock exchange which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by the competent listing authority and/or stock exchange), subject to all applicable laws and competent listing authority and/or stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Certificates or Coupons or Talons must be surrendered before replacements will be issued.

**16. Trustee and Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or pre-funded before taking any steps or actions or initiating any proceedings and relieved from responsibility in certain circumstances and to be paid its costs, fees and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents (as defined in the Agency Agreement) act solely as agent of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. If any additional Agents are appointed in connection with any Series, the names of such Agents will be specified in Part B of the relevant Final Terms. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; provided, however, that:

- (A) the Issuer shall at all times maintain a Principal Paying Agent and a Registrar;

- (B) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (C) if and for so long as the Notes are admitted to listing and/or trading by any competent authority and/or stock exchange which requires the appointment of a Paying Agent and/or Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority and/or stock exchange.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 19 (*Notices*) and to the Trustee.

## 17. **Meetings of Noteholders; Modification and Waiver; Substitution**

- (A) ***Meetings of Noteholders:*** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions by Extraordinary Resolution, except that the provisions relating to the Tier 2 Capital Notes shall only be capable of modification in accordance with Condition 17(D) (*Competent Authority Notice or Consent*).

Such a meeting may be convened by the Issuer or by the Trustee and, subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction, shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than a clear majority in aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons 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 outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

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.

The Trust Deed contains provisions for convening a single meeting of the holders of Notes of more than one Series in certain circumstances where the Trustee so decides.

- (B) ***Modification and waiver:*** Subject to certain exceptions and Condition 17(D) (*Competent Authority Notice or Consent*), the Trustee may, without the consent of the Noteholders, agree to any modification of the Trust Deed or the Notes (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, not materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is (in the Trustee's opinion) of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may,

without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

In addition, the Trustee may determine, without the consent of the holders of Notes of any Series or holders of the Coupons (if any) appertaining thereto (except as set out in the Trust Deed), that any Event of Default or Potential Event of Default (both as defined in the Trust Deed) shall not be treated as such for the purpose of the Trust Deed and such Notes if, in the opinion of the Trustee, the interests of the relevant Noteholders would not be materially prejudiced thereby.

Any such authorisation, waiver, determination or modification shall be notified to the Noteholders by the Issuer in accordance with Condition 19 (*Notices*) as soon as practicable thereafter.

- (C) ***Substitution***: Subject to (1) Condition 17(D) (*Competent Authority Notice or Consent*) and (2) such amendment of the Trust Deed and any other conditions as the Trustee may require, but without the consent of the Noteholders, the Trustee may also agree, subject in the case of any Series of Senior Notes to such Senior Notes and any related Coupons being or, where appropriate, remaining irrevocably guaranteed by the Issuer, to the substitution of any Subsidiary of the Issuer in place of the Issuer (or any previous substitute under this Condition 17(C) (*Substitution*)) as principal debtor under such Notes and in each case the Coupons (if any) appertaining thereto and the Trust Deed in so far as it relates to such Notes, all in accordance with the provisions of the Trust Deed.

In connection with a substitution under this Condition 17(C) (*Substitution*), the Trustee may agree, without the consent of the holders of the Notes of the relevant Series or of the Coupons (if any) appertaining thereto but subject always to Condition 17(D) (*Competent Authority Notice or Consent*), to a change of the law governing such Notes and/or Coupons and/or the Trust Deed insofar as it relates to such Notes provided that (1) such change would not in the opinion of the Trustee be materially prejudicial to the interests of the holders of the Notes of such Series and (2) the Issuer (or any previous substitute under this Condition 17(C) (*Substitution*)) shall not be entitled as a result of such substitution to redeem the Notes pursuant to Condition 9(C) (*Redemption for Tax Event*), 9(D) (*Redemption for Regulatory Event*) or 9(E) (*Redemption for Loss Absorption Disqualification Event*), as the case may be.

- (D) ***Competent Authority Notice or Consent***: The provisions relating to the Tier 2 Capital Notes shall only be capable of modification or waiver in accordance with Condition 17(B) (*Modification and waiver*) and the Issuer of Tier 2 Capital Notes may only be substituted (and where applicable, the governing law of the Notes and/or the Coupons and/or the Trust Deed changed) in accordance with Condition 17(C) (*Substitution*), if the Issuer has notified the Competent Authority of such modification, waiver or substitution (and where applicable, change of governing law, as aforesaid) and/or obtained the prior consent of the Competent Authority, as the case may be (if such notice and/or consent is then required by the Capital Regulations).

Wherever such modification or waiver of the Tier 2 Capital Notes is proposed, a meeting of Holders in respect thereof is proposed or a substitution of the Issuer of the Tier 2 Capital Notes (and where applicable, change of governing law, as aforesaid) is proposed in accordance with Condition 17(C) (*Substitution*), the Issuer shall provide to the Trustee a certificate signed by two Authorised

Signatories, certifying either that (1) it has notified the Competent Authority of, and/or received the Competent Authority's consent to such modification, waiver or substitution (and where applicable, change of governing law, as aforesaid), as the case may be; or (2) that the Issuer is not required to notify the Competent Authority of, and/or obtain the Competent Authority's consent to, such modification, waiver or substitution. The Trustee shall be entitled to rely absolutely on such certificate without further enquiry and without liability for so doing.

- (E) **Effect for the Holders:** Any such modification, waiver, authorisation, determination or substitution shall be binding on all the Noteholders and Couponholders of the relevant Series and shall be notified to the holders of Notes of that Series as soon as practicable thereafter in accordance with Condition 19 (*Notices*).
- (F) **Exercise of Trustee's powers:** In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to, those in relation to any such modification, waiver, authorisation, determination or substitution as aforesaid) the Trustee shall have regard to the interests of the holders of the Notes of the relevant Series as a class and in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from the individual Noteholders or Couponholders being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders.

## 18. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or Couponholders but subject to receipt of the prior consent of the Competent Authority (if and to the extent such consent is required by the Capital Regulations at such time) and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except in relation to the first payment of interest) so as to be consolidated and form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

## 19. Notices

- (A) **Bearer Notes:** Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (B) **Registered Notes:** Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

20. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions), (A) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

21. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of any Note by virtue of the Contracts (Rights of Third Parties) Act 1999.

22. **Governing Law and Jurisdiction**

- (A) **Governing law:** The Notes, the Coupons and the Trust Deed, and all non-contractual obligations arising out of or in connection with the Notes, the Coupons and the Trust Deed, are governed by English law.
- (B) **Jurisdiction:** The parties to the Trust Deed have (1) 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 or the Coupons (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes or the Coupons); and (2) 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.

## FORM OF FINAL TERMS

*The Final Terms in respect of each Tranche of Notes will be in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

### **[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 EUROPEAN ECONOMIC AREA. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF:**

- (A) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU, AS AMENDED (“MIFID II”);**
- (B) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC, AS AMENDED, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR**
- (C) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC, AS AMENDED.**

**CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014, AS AMENDED (THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.]**

### **[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET:**

**SOLELY FOR THE PURPOSES OF [THE/EACH] MANUFACTURER[’S/S’] PRODUCT APPROVAL PROCESS, THE TARGET MARKET ASSESSMENT IN RESPECT OF THE NOTES HAS LED TO THE CONCLUSION THAT:**

- (A) THE TARGET MARKET FOR THE NOTES IS ELIGIBLE COUNTERPARTIES (ECPS) AND PROFESSIONAL CLIENTS ONLY, EACH AS DEFINED IN MIFID II; AND**
- (B) 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 MANUFACTURER[’S/S’] 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 MANUFACTURER[’S/S’] TARGET MARKET ASSESSMENT) AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS.]**

Final Terms dated [•]

CYBG PLC

Legal Entity Identifier (LEI): 213800ZK9VGCYYR6O495

Issue of [Currency][Aggregate Principal Amount of Tranche] [Title of Notes]

under the £10,000,000,000 Global Medium Term Note Programme

## PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the base prospectus dated 7 September 2018 [and the supplemental base prospectus dated [•]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of Directive 2003/71/EC, as amended, including by Directive 2010/73/EU and as implemented by any relevant implementing measure in the relevant Member State (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus and these Final Terms have been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>].

[Terms used herein shall be deemed to be defined as such for the purposes of the [date] Conditions (the “**Conditions**”) incorporated by reference in the base prospectus dated [•]. These Final Terms contain the final terms of the Notes and must be read in conjunction with the base prospectus dated [•] [and the supplemental base prospectus dated [•]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of Directive 2003/71/EC, as amended, including by Directive 2010/73/EU and as implemented by any relevant implementing measure in the relevant Member State (the “**Prospectus Directive**”), save in respect of the Conditions which are set forth in the base prospectus dated [•] and are incorporated by reference in the Base Prospectus. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus, the base prospectus dated [•], including the Conditions, and these Final Terms have been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>].

1. Issuer: CYBG PLC
2. (i) Series Number: [•]
- (ii) Tranche Number: [•]
- [(iii) Date on which the Notes become fungible: [Not Applicable]/[The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [•]/[the Issue Date]/[exchange of the Temporary Global Note for interests in the

Permanent Global Note, as referred to in paragraph [23] below [which is expected to occur on or about [•]].]

3. Specified Currency or Currencies: [•]
4. Aggregate Principal Amount: [•]  
[(i)] [Series]: [•]  
[(ii)] Tranche: [•]
5. Issue Price: [•] per cent. of the Aggregate Principal Amount [plus accrued interest from [•]]
6. (i) Specified Denominations: [•] [and integral multiples of [•] in excess thereof up to (and including) [•]. [No Notes in definitive form will be issued with a denomination above [•]]].  
(ii) Calculation Amount: [•]
7. (i) Issue Date: [•]  
(ii) Interest Commencement Date: [•]/[Issue Date]/[Not Applicable]
8. Maturity Date: [•]
9. Interest Basis: [[•] per cent. Fixed Rate]  
[Reset Notes]  
[[LIBOR]/[EURIBOR] +/- [•] per cent. Floating Rate]  
[Floating Rate: CMS Linked Interest]  
[Zero Coupon]  
(see paragraph [14]/[15]/[16]/[17] below)
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [[•]/[100]] per cent. of their principal amount.
11. Change of Interest Redemption/Payment Basis: or [•]/[Not Applicable]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
(see paragraph [18]/[19] below)  
[Not Applicable]



13. [(i)] Status of the Notes: [Senior]/[Tier 2 Capital Notes]
- [(ii)] Senior Notes Waiver of Condition 3(C): [Applicable]/[Not Applicable]  
Set-off:
- [(iii)] Senior Notes Events of Condition 13(B): [Applicable]/[Not Applicable]  
Default:
- [(iv)] [Date [Board] approval for [•]  
issuance of Notes  
obtained:]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** [Applicable]/[Not Applicable]/[Applicable from [•] to [•] [if  
so elected by the Issuer on or before [•]]]
- (i) Rate[(s)] of Interest: [•] per cent. per annum [payable [annually]/[semi-  
annually]/[quarterly]/[•] in arrear on each Interest  
Payment Date]
- (ii) Interest Payment Date(s): [•]/[and [•]] in each year[, up to and including [•]],  
commencing on [•]
- (iii) Fixed Coupon [•] per Calculation Amount  
Amount[(s)]:
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest  
Payment Date falling on [•]
- (v) Day Count Fraction: [30/360]  
  
[Actual/Actual (ICMA)]  
  
[Actual/Actual (ISDA)]  
  
[Actual/365 (Fixed)]  
  
[Actual/360]  
  
[30E/360]  
  
[Eurobond Basis]  
  
[30E/360(ISDA)]
15. **Reset Note Provisions** [Applicable]/[Not Applicable]
- (i) Initial Rate of Interest: [•] per cent. per annum [payable [annually]/[semi-  
annually]/[quarterly]/[•] in arrear on each Interest  
Payment Date]
- (ii) Reset Rate: [Mid-Swap Rate]/[Benchmark Gilt Rate]

- (iii) First Margin: [ +/ - ] [ • ] per cent. per annum
- (iv) Subsequent Margin: [ [ +/ - ] [ • ] per cent. per annum ] / [ Not Applicable ]<sup>1</sup>
- (v) Interest Payment Date(s): [ • ] [ and [ • ] ] in each year up to (and including) the Maturity Date, commencing on [ • ]
- (vi) Fixed Coupon Amount up to (but excluding) the First Reset Date: [ [ • ] per Calculation Amount ] / [ Not Applicable ]
- (vii) Broken Amount(s): [ [ • ] ] per Calculation Amount payable on the Interest Payment Date falling [ in ] / [ on ] [ • ] / [ Not Applicable ]
- (viii) First Reset Date: [ • ]
- (ix) Subsequent Reset Date(s): [ • ] [ and [ • ] ]
- (x) Relevant Screen Page: [ • ]
- (xi) Mid-Swap Rate: [ Single Mid-Swap Rate ] / [ Mean Mid-Swap Rate ]
- (xii) Mid-Swap Maturity: [ • ]
- (xiii) Reference Rate: [ EURIBOR ] / [ LIBOR ] / [ • ]
- (xiv) Reference Banks: [ • ]
- (xv) Day Count Fraction: [ 30/360 ]  
[ Actual/Actual (ICMA) ]  
[ Actual/Actual (ISDA) ]  
[ Actual/365 (Fixed) ]  
[ Actual/360 ]  
[ 30E/360 ]  
[ Eurobond Basis ]  
[ 30E/360 (ISDA) ]
- (xvi) Reset Determination Date(s): [ • ] / [ The provisions of the Conditions apply ]
- (xvii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the

<sup>1</sup> For Tier 2 Capital Notes and Senior Notes which are intended to count as MREL, the Subsequent Margin shall be equal to the First Margin.

[Principal Paying Agent]]:

(xviii) Mid-Swap Floating Leg [EURIBOR]/[LIBOR]/[•]  
Benchmark Rate:

16. **Floating Rate Note Provisions** [Applicable]/[Not Applicable]/[Applicable from [•] to [•] [if so elected by the Issuer on or before [•]]]

(i) Specified Period(s): [•]

(ii) Interest Payment Dates: [•] [and [•]] in each year[, subject to adjustment in accordance with the Business Day Convention below]

(iii) First Interest Payment Date: [•]

(iv) Business Day Convention: [Following Business Day Convention]  
[Modified Following Business Day Convention]  
[Modified Business Day Convention]  
[Preceding Business Day Convention]  
[FRN Convention]  
[Floating Rate Convention]  
[Eurodollar Convention]  
[No Adjustment]  
[Not Applicable]

(v) Additional Business Centre(s): [Not Applicable]/[•]

(vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination]/[ISDA Determination]

(vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]): [[•] shall be the Calculation Agent]

(viii) Screen Rate Determination: [Applicable]/[Not Applicable]

(a) Reference Rate: [EURIBOR]/[LIBOR]/[CMS Reference Rate]

(b) Reference Bank(s): [•]

- (c) Interest Determination Date(s): [•]
- (d) Relevant Screen Page: [•]
- (e) Relevant Time: [[•] in the Relevant Financial Centre]/[as per the Conditions]
- (f) Relevant Financial Centre: [London]/[Brussels]/[New York City]/[•]
- (g) Reference Currency: [•]/[Not Applicable]
- (h) Designated Maturity: [•]/[Not Applicable]
- (i) Determination Time: [[•] [a.m.]/[p.m.] ([•] time)]/[Not Applicable]
- (j) CMS Rate Fixing Centre(s): [•]/[Not Applicable]
- (ix) ISDA Determination: [Applicable]/[Not Applicable]
  - (a) Floating Rate Option: [•]
  - (b) Designated Maturity: [•]
  - (c) Reset Date: [•]
  - (d) ISDA Definitions: 2006
- (x) Linear Interpolation: [Not Applicable]/[Applicable – the Rate of Interest for the [long]/[short] [first]/[last] Interest Period shall be calculated using Linear Interpolation]
- (xi) Margin(s): [+/-][•] per cent. per annum
- (xii) Minimum Rate of Interest: [•] per cent. per annum
- (xiii) Maximum Rate of Interest: [•] per cent. per annum
- (xiv) Day Count Fraction: [30/360]
  - [Actual/Actual (ICMA)]
  - [Actual/Actual (ISDA)]
  - [Actual/365 (Fixed)]

[Actual/360]

[30E/360]

[Eurobond Basis]

[30E/360(ISDA)]

**17. Zero Coupon Note Provisions** [Applicable]/[Not Applicable]

(i) Accrual Yield: [•] per cent. per annum

(ii) Reference Price: [•]

(iii) Day Count Fraction in relation to early Redemption Amounts: [30/360]  
[Actual/Actual (ICMA)]

[Actual/Actual (ISDA)]

[Actual/365 (Fixed)]

[Actual/360]

[30E/360]

[Eurobond Basis]

[30E/360(ISDA)]

**PROVISIONS RELATING TO REDEMPTION**

**18. Call Option** [Applicable]/[Not Applicable]

(i) Optional Redemption Date(s) (Call): [•]/[Any date from (and including) [•] to (but excluding) [•]]

(ii) Optional Redemption Amount (Call): [[•] per Calculation Amount] [in the case of the Optional Redemption Date(s) falling [on [•]]/[in the period from (and including) [•] to (but excluding) [•]] [and [[•] per Calculation Amount] [in the case of the Optional Redemption Date(s) falling [on [•]]/[in the period from (and including) [•] to (but excluding) the Maturity Date]]

(iii) Series redeemable in part: [Yes: [•] per cent. of the Aggregate Principal Amount of the Notes may be redeemed on [each]/[the] Optional Redemption Date (Call)]/[No]

(iv) If redeemable in part:

(a) Minimum Redemption Amount: [[•] per Calculation Amount]/[Not Applicable]

	(b)	Maximum Redemption Amount:	[[•] per Calculation Amount]/[Not Applicable]
	(v)	Notice period:	Minimum period: [[•] days]/[as per the Conditions] Maximum period: [[•] days]/[as per the Conditions]
	(vi)	Optional Amount Redemption (Regulatory Event):	[•] per Calculation Amount
	(vii)	Loss Absorption Disqualification Call:	[Applicable]/[Not Applicable]
	(a)	Optional Redemption Amount (Loss Absorption Disqualification Event):	[•] per Calculation Amount
	(b)	Full exclusion or partial exclusion sufficient:	[Full exclusion required]/[Partial exclusion sufficient]
	(viii)	Early Redemption Amount (Tax):	[•] per Calculation Amount
19.	<b>Put Option</b>		[Applicable]/[Not Applicable]
	(i)	Optional Date(s) (Put):	[•]
	(ii)	Optional Redemption Amount (Put):	[•] per Calculation Amount
	(iii)	Notice period:	Minimum period: [[•] days]/[as per the Conditions] Maximum period: [[•] days]/[as per the Conditions]
20.	Final Redemption Amount:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [•] per Calculation Amount
21.	Early Termination Amount:		[[•] per Calculation Amount]/[Not Applicable]
22.	Redemption Amount for Zero Coupon Notes:		[•]/[As per Condition 9(l)]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

23.	Form of Notes:	<b>Bearer Notes:</b>  [Temporary Global Note exchangeable for a Permanent
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Global Note which is exchangeable for Definitive Notes in the limited circumstances described in the Permanent Global Note]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances described in the Permanent Global Note]

**Registered Notes:**

[Unrestricted Global Certificate exchangeable for Unrestricted Individual Certificates in the limited circumstances described in the Unrestricted Global Certificate]

[and]

[Restricted Global Certificate exchangeable for Restricted Individual Certificates in the limited circumstances described in the Restricted Global Certificate]

[and]

[Restricted Global Certificate [(U.S.\$ [•]/€[•] principal amount)] registered in the name of a nominee for [DTC]/[a common depositary for Euroclear and Clearstream, Luxembourg]/[a common safekeeper for Euroclear and Clearstream, Luxembourg.]

[and]

[Unrestricted Global Certificate [(U.S.\$ [•]/€[•] principal amount)] registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]/[a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]/[Individual Certificates]

- |   |                             |
|---|-----------------------------|
| 24. New Global Note:  | [Yes]/[No]/[Not Applicable] |
| 25. New Safekeeping Structure:  | [Yes]/[No]/[Not Applicable] |
| 26. Additional Financial Centre(s) or other special provisions relating to payment dates: | [Not Applicable]/[•]        |
| 27. Talons for future Coupons to be attached to Definitive Notes:                         | [Yes]/[No]                  |

**SIGNED** on behalf of  
**CYBG PLC:**

By: .....  
Duly authorised



## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange with effect from [•].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange with effect from [•].]

- (ii) Estimate of total expenses related to admission to trading: [•]

### 2. RATINGS

Ratings: The Notes to be issued [have not been rated]/ [have been rated:]

[Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**")]: [•]

[Fitch Ratings Limited ("**Fitch**")]: [•]

[The short term unsecured obligations of the Issuer are rated [•] by Standard & Poor's and [•] by Fitch, and the unsecured unsubordinated long-term obligations of the Issuer are rated [•] by Standard & Poor's and [•] by Fitch.]

[Each of] [Standard & Poor's] and [Fitch] is established in the European Economic Area (the "**EEA**") and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of Standard & Poor's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

[Save for any fees payable to the [Managers]/[Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

### 4. USE OF PROCEEDS

[It is the Issuer's intention to use the proceeds of the issue of the Notes issued by it, to initially make an investment in Clydesdale Bank PLC in the form of [senior

debt]/[subordinated debt intended to qualify as tier 2 capital of Clydesdale Bank PLC]. The Issuer retains the discretion to restructure any investment made with the proceeds at any time.]/[•]

5. **[Fixed Rate Notes only – YIELD]**

Indication of yield: [•]

[The indicative yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]/[The indicative yield is calculated at the Issue Date on the basis of an assumed Issue Price of 100 per cent. It is not an indication of an individual investor's actual or future yield.]

6. **OPERATIONAL INFORMATION**

(i) CUSIP Number [•]/[Not Applicable]

(ii) ISIN: [•]

(iii) Common Code: [•]

(iv) CFI: [•]/[Not Applicable]

(v) FISN: [•]/[Not Applicable]

(vi) Any clearing system(s) other than Euroclear, Clearstream Luxembourg or DTC and the relevant identification number(s): [Not Applicable]/[•]

(vii) Delivery: Delivery [against]/[free of] payment

(viii) Names and addresses of additional Paying Agent(s) (if any): [•]

(ix) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] [and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date

of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

## 7. DISTRIBUTION

- (i) U.S. Selling Restrictions: [Reg. S Compliance Category [1]/[2];[TEFRA C]/[TEFRA D]/[TEFRA not applicable] – [Not] Rule 144A Eligible
- (ii) Prohibition of Sales to EEA Retail Investors: [Applicable]/[Not Applicable]  
*[If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no “key information document” will be prepared, “Applicable” should be specified]*
- (iii) Method of distribution: [Syndicated]/[Non-syndicated]
- (iv) If syndicated [Not Applicable]/[•]
  - (a) Names of Managers and underwriting commitments: [Not Applicable]/[•]
  - (b) Stabilisation Manager(s) (if any): [Not Applicable]/[•]
- (v) If non-syndicated, name and address of Dealer: [Not Applicable]/[•]

## 8. BENCHMARK REGULATION

[[specify benchmark] is provided by [administrator legal name]. As at the date hereof, [administrator legal name] [appears]/[does not appear] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the Benchmark Regulation. [As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that [administrator legal name] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).]/[Not Applicable]

## FORMS OF THE NOTES

### **Bearer Notes**

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note, without interest coupons, or a Permanent Global Note, without interest coupons, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the Issue Date of the relevant Tranche of Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the Issue Date of the relevant Tranche of Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006, the European Central Bank (the “**ECB**”) announced that Notes in NGN form are in compliance with the “*Standards for the use of EU securities settlement systems in ESCB credit operations*” of the central banking system for the euro (the “**Eurosystem**”), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg from 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or a successor provision) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or a successor provision) (the “**TEFRA D Rules**”) are applicable in relation to the Notes or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

### ***Temporary Global Note exchangeable for Permanent Global Note***

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery (free of charge to the bearer) of a Permanent Global Note, duly authenticated and, in the case of a NGN, effectuated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (A) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and
- (B) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within seven days of the bearer requesting such exchange.

### ***Permanent Global Note exchangeable for Definitive Notes***

If the relevant Final Terms specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following events occurs:

- (A) Euroclear, Clearstream, Luxembourg or any other relevant clearing system 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;
- (B) any of the circumstances described in Condition 13 (*Events of Default*) occurs; or
- (C) if the Trustee is satisfied that, on the occasion of the next payment due in respect of the Notes of the relevant Series, the Issuer or any of the Paying Agents would be required to make any deduction or withholding from any payment in respect of such Notes which would not be required were such Notes in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to (or to the order of) the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, the Permanent Global Note shall only be exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.

### ***Terms and Conditions applicable to the Bearer Notes***

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “— *Summary of Provisions Relating to the Notes while in Global Form*” below.

### ***Legend concerning United States persons***

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

*“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”*

### ***Registered Notes***

Each Tranche of Registered Notes will be represented by either:

- (A) Individual Certificates; or
- (B) one or more Unrestricted Registered Notes and/or one or more Restricted Registered Notes,

in each case as specified in the relevant Final Terms. A Certificate will be issued to each holder of Registered Notes in respect of its registered holding.

In a press release dated 22 October 2008, “*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*”, the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which Euroclear and/or Clearstream, Luxembourg had designed in cooperation with market participants and that Notes to be held under the NSS would be in compliance with the “*Standards for the use of EU securities settlement systems in ESCB credit operations*” of the Eurosystem, subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg from 30 June 2010 and that registered debt securities in global registered form issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the NSS is used.

Each Note represented by an Unrestricted Global Certificate will either be: (A) in the case of a Certificate which is not to be held under the NSS, registered in the name of a common depository (or its nominee) for Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common depository; or (B) in the case of a Certificate to be held under the NSS, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

Each Note represented by a Restricted Global Certificate will be: (A) deposited with, and registered in the name of, a nominee, common depository or common safekeeper for Euroclear or Clearstream, Luxembourg; or (B) registered in the name of Cede & Co. (or such other entity as is specified in the relevant Final Terms) as nominee for DTC and the relevant Restricted Global Certificate will be deposited on or about the issue date with the DTC Custodian. Beneficial interests in Notes represented by a Restricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by such clearing systems and their respective participants.

If the relevant Final Terms specifies the form of Notes as being “Individual Certificates”, then the Notes will at all times be represented by Individual Certificates issued to each Noteholder in respect of their respective holdings.

### ***Global Certificate exchangeable for Individual Certificates***

If the relevant Final Terms specifies the form of Notes as being “Global Certificate exchangeable for Individual Certificates”, then the Notes will initially be represented by one or more Global Certificates each of which will be exchangeable in whole, but not in part, for Individual Certificates if the relevant Final Terms specifies “in the limited circumstances described in the Global Certificate”, then:

- (A) in the case of any Global Certificate, if Euroclear or Clearstream, Luxembourg/and or DTC or any other relevant clearing system 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;

- (B) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs; or
- (C) if the Trustee is satisfied that, on the occasion of the next payment due in respect of the Notes of the relevant Series, the Issuer or any of the Paying Agents would be required to make any deduction or withholding from any payment in respect of such Notes which would not be required were such Notes in definitive form.

Whenever a Global Certificate is to be exchanged for Individual Certificates, each person having an interest in a Global Certificate must provide the relevant Registrar (through the relevant clearing system) with such information as the Issuer and the relevant Registrar may require to complete and deliver Individual Certificates (including the name and address of each person in which the Notes represented by the Individual Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Certificate is to be exchanged for Individual Certificates, each person having an interest in the Restricted Global Certificate must provide the relevant Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Certificate stating either (A) that such holder is not transferring its interest at the time of such exchange; or (B) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Certificates issued in exchange for interests in the Restricted Global Certificate will bear the legends and be subject to the transfer restrictions set out under "*Transfer Restrictions*".

Whenever a Global Certificate is to be exchanged for Individual Certificates, the Issuer shall procure that Individual Certificates will 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 to the relevant Registrar of such information as is required to complete and deliver such Individual Certificates against the surrender of the Global Certificate at the specified office of the relevant Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the relevant 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.

### ***Terms and Conditions applicable to the Registered Notes***

The terms and conditions applicable to any Individual Certificate will be endorsed on that Individual Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

### **Summary of Provisions relating to the Notes while in Global Form**

#### ***Clearing System Accountholders***

In relation to any Tranche of Notes represented by a Global Note, references in the Conditions to "**Noteholder**" or "**Holder**" are references to the bearer of the relevant Global Note which, for so

long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary, common depositary, sub-custodian or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by one or more Global Certificates, references in the Conditions to “**Noteholder**” or “**Holder**” are references to the person in whose name the relevant Global Certificate is for the time being registered in the Register which (A) in the case of a Restricted Global Certificate held (1) by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg, will be that depositary or sub-custodian or common depositary or common safekeeper or a nominee for that depositary or common depositary or sub-custodian or common safekeeper, as the case may be; or (2) by or on behalf of DTC, will be Cede & Co. (or such other entity as is specified in the relevant Final Terms) as nominee for DTC; and (B) in the case of any Unrestricted Global Certificate which is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or sub-custodian or common depositary or common safekeeper or a nominee for that depositary or common depositary or sub-custodian or common safekeeper, as the case may be.

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Certificate (each an “**Accountholder**”) must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the holder of such Global Note or Global Certificate and in relation to all other rights arising under such Global Note or Global Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Certificate.

### ***Transfers of Interests in Global Notes and Global Certificates***

Transfers of interests in Global Notes and Global Certificates within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Trustee, the Registrars, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Transfer Restrictions*”, transfers between DTC participants, on the one hand, and



Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the relevant Registrar and the Principal Paying Agent.

### ***Conditions applicable to Global Notes***

Each Global Note and Global Certificate will contain provisions which modify the Conditions as they apply to the Global Note or Global Certificate. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Note or Global Certificate which, according to the Conditions, require presentation and/or surrender of a Note, Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

*Payment Business Day:* in the case of a Global Note or a Global Certificate, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre specified in the Final Terms; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

*Payment Record Date:* Each payment in respect of a Global Certificate will be made to the person, being the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

*Exercise of put option:* In order to exercise the option contained in Condition 9(F) (*Redemption at the option of Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 9(G) (*Partial redemption*) in relation to some only of the Notes, the Permanent Global Note or Global Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

*Notices:* Notwithstanding Condition 19 (*Notices*), while all the Notes are represented by a Global Note or a Global Certificate and the Global Note, or the Global Certificate is, registered in the name of DTC’s nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with

Condition 19 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

### ***Eurosystem Eligibility***

If the Global Notes or Global Certificates are stated in the relevant Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), on or prior to the original issue date of the Tranche, the Global Notes or Global Certificates will be delivered to a common safekeeper and the relevant Final Terms will set out whether or not the Notes are intended to be held as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem ("**Eurosystem eligible collateral**").

Depositing the Global Notes or the Global Certificates intended to be held as Eurosystem eligible collateral with a common safekeeper does not necessarily mean that the Notes will be recognised as Eurosystem eligible collateral either upon issue, or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that the Eurosystem eligibility criteria have been met. In the case of Notes issued in NGN form or to be held under the NSS (as the case may be) which are not intended to be held as Eurosystem eligible collateral as of their issue date, should the Eurosystem eligibility criteria be amended in the future so that such Notes are capable of meeting the eligibility criteria, such Notes may then be deposited with Euroclear or Clearstream, Luxembourg as common safekeeper.

## **USE OF PROCEEDS**

The net proceeds of the issue of each Series of Senior Notes will be used for general corporate purposes of the Issuer and its subsidiaries and/or the Group, as may be more specifically set out in the Final Terms.

The net proceeds of the issue of each Series of Tier 2 Capital Notes will be used for general corporate purposes of the Group and to strengthen further the regulatory capital base of the Issuer and/or the Group, as may be more specifically set out in the Final Terms.

## 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.

The Issuer is a public limited company, incorporated in England and Wales, whose principal activity is to act as the holding company for Clydesdale Bank. Clydesdale Bank has no material operations outside the UK. The Issuer does not hold a UK banking licence. The only non UK registered entity 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.

### Subsidiaries

The Issuer is the holding company of the Group.

As at the date of this Base Prospectus, the Issuer had the following significant subsidiary undertakings, each of which is wholly-owned, either directly or indirectly, by the Issuer and consolidated into the annual financial statements of the Issuer:

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
CYB Intermediaries Limited	Insurance intermediary	20 Merrion Way, Leeds, LS2 8NZ	100	England
Clydesdale Bank Asset Finance Limited	Leasing	30 St Vincent Place, Glasgow, G1 2HL	100	Scotland
CGF No.9	Leasing	30 St Vincent Place, Glasgow,	100	Scotland

<b>Name</b>	<b>Principal Activity</b>	<b>Registered Office</b>	<b>Percentage of shares and voting rights held</b>	<b>Jurisdiction</b>
Limited		G1 2HL		
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
St Johns Place Residential Management Company 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

### **Principal Shareholders**

As at the date of this Base Prospectus, the Issuer's issued and fully paid-up capital consists of 886,051,176 ordinary shares of nominal value of £0.10 each. As at 31 March 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.

<b>Shareholders</b>	<b>Number of issued shares held</b>	<b>Percentage of issued share capital</b>	<b>Percentage of issued share capital of the Combined Group</b>
Perpetual Limited and subsidiaries	44,463,361	5.02	3.10
Coopers Investors Pty Limited	52,888,470	5.97	3.69
Schroders plc	44,572,459	5.03	3.11
Investors Mutual Limited	45,016,877	5.08	3.14
AMP Life Limited, AMP Capital Investors Limited, Ipac Asset Management Limited, AMP Capital Investors (NZ) Limited	26,608,485	3.00	1.86
JCP Investment Partners Limited	35,251,058	3.98	2.46
BT Investment Management Limited	27,036,329	3.05	1.89
Pendal Group Limited	36,399,949	4.11	2.54

## **Ratings**

As at the date of this Base Prospectus, the Long Term Issuer Default Rating assigned to the Issuer by Fitch was BBB+ and the Issuer Credit Rating assigned to the Issuer by S&P was BBB-.

## INFORMATION ON THE GROUP

### Overview

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

In 2016, the Group launched a new app-based digital banking service under the ‘B’ brand, offering PCAs, savings and transaction banking services in the UK. The range of products and services available in this digital proposition continues to expand and evolve.

The Group’s long established retail and SME franchises, serving 2.8 million customers, have significant scale and strength in PCAs, BCAs, SME lending and mortgages in its core regions. As at 31 March 2018, the Group had £28.4 billion of customer deposits and a £32.7 billion customer loan portfolio, of which £24.1 billion were mortgage loans, £7.4 billion were SME lending and the remainder of the portfolio comprised unsecured personal lending (including credit cards and overdrafts).

The Group has a standalone operating platform, with limited ongoing support required by NAB under a TSA until the Group’s planned separation is fully implemented (expected by the end of 2018). The Group’s operating platform supports its full service customer proposition and enables the Group to provide services to customers through multiple distribution channels. As at 31 March 2018, these distribution channels included 169 retail customer banking centres (70 Clydesdale Bank-branded, 97 Yorkshire Bank-branded and two ‘B’-branded) and 48 business and private customer banking centres (including 40 centres integrated with retail customer banking centres), strong and well-established relationships with leading third-party mortgage intermediaries, access to certain banking services through the UK Post Office’s approximately 11,500 branches, telephony and voice services, and an ATM network. The Group’s distribution platform continues to develop to allow Clydesdale Bank, Yorkshire Bank and ‘B’ customers to complete their retail and SME banking needs across multiple distribution channels with an emphasis on digital and non-branch channel usage which reflects changing customer interaction preferences and behaviour. This distribution capability is underpinned by a rapidly evolving digital platform (“iB”) which powers the Issuer’s retail franchises: the digital-only brand “B” and omni-channel distribution of the Clydesdale Bank and Yorkshire Bank brands. During 2018, the Issuer’s SME franchise will be transferred onto the iB platform, ending a migration of all customer activity onto a platform that offers enhanced capability including the aggregation of customer accounts and seamless aggregation of third party products and services.

For the year ended 30 September 2017, the Group’s net interest income was £844 million, as compared to £806 million for the year ended 30 September 2016. For the six month period ended 31 March 2018, the Group’s net interest income was £426 million, as compared to £411 million for the six month period ended 31 March 2017.

The Issuer had approximately 6,500 full time equivalent employees as at 30 September 2017 and is building a purpose-led, high performing, team-based culture. A clear set of organisational behaviours shape the culture of the business. Performance approaches drive alignment with the Group strategy, teamwork and individual focus on improvement. The Group has significantly increased its focus on wellbeing, inclusion and diversity. These are hardwired into values and behaviours, and built into people practices. The culture transformation is focused on creating a set of leaders, colleagues and ways of working that will allow the business to evolve and change in line with the market and the Group strategy.

As part of its wholesale funding activity, the Issuer has accessed and will continue, from time to time, to look to access the securitisation markets through its Lanark or Lannraig Mortgage Backed Securities programmes and its Regulated Covered Bond programme as well as the wholesale markets through this Programme. On 5 July 2018, a further series of notes were issued pursuant to the Lanark Mortgage Backed Securities programme.

## **Proposed Acquisition of Virgin Money**

In relation to the proposed acquisition of Virgin Money by the Issuer, please refer to (a) the sections incorporated by reference into this Base Prospectus in respect of the 2018 Virgin Money Proposed Acquisition and Share Prospectus, and (b) the Chairman's Letter, which have both been incorporated by reference into this Base Prospectus.

## **Business Description**

### ***Retail Banking***

The Group has a comprehensive regional and national retail banking product proposition, serving over 2.8 million customers. The Group's personal deposit portfolio was £19.4 billion as at 31 March 2018, comprising PCAs (41 per cent. of the total portfolio), variable rate savings accounts (32 per cent. of the total portfolio) and fixed rate term deposits (27 per cent. of the total portfolio). As at 31 March 2018, 84 per cent. of variable rate savings account and fixed rate term deposits customers were located in the Group's core regions, compared to 88 per cent. of PCA customers.

The Group's retail loan portfolio was £25.3 billion as at 31 March 2018, comprising mortgages (95 per cent. of the total portfolio), personal loans (3 per cent. of the total portfolio) and credit cards and overdrafts (2 per cent. of the total portfolio).

#### **(a) *Current Accounts***

The Group had approximately 1.8 million PCA customers as at 31 March 2018. 38 per cent. of the Group's PCA customers also held savings accounts with the Group.

The Group has a loyal PCA customer base that represents a stable source of funding. As at 31 March 2018, 79 per cent. of the Group's PCA customers had a tenure with the Group of more than ten years. As at 31 March 2018, 88 per cent. of the Group's PCA customers were located in its core regions, with 36 per cent. in Scotland, 33 per cent. in Yorkshire & Humber, 8 per cent. in North East England, 11 per cent. in North West England and around 13 per cent. in the rest of the UK.

#### **(b) *Savings Accounts***

As at 31 March 2018, the Group had approximately 1.2 million personal savings account customers and personal fixed rate term deposit customers and £6,289 million of personal variable rate savings account deposits. As at 31 March 2018, 81 per cent. of personal savings account customers held an account with the Group for more than ten years.

The Group offers a variety of savings accounts that pay a variable rate of interest. The Group also offers a variable rate cash ISA with competitive, tiered rates and which offers depositors tax free returns and instant access to their funds at any time. The Cash ISA account, Flexi Cash ISA, had balances of £1,321 million as at 31 March 2018.

#### **(c) *Private Banking***

The Group offers private banking customers a wide variety of products such as current accounts (with or without travel insurance cover), savings products (including cash ISAs and term



deposits), discounted mortgages, branded credit cards, asset finance as well as a wealth management referral to an Origen Financial Services adviser and access to foreign exchange solutions.

(d) *Term deposits*

As at 31 March 2018, the Group had £5,158 million of personal fixed rate term deposits. Taken together with the Group's savings account customers, 84 per cent. of variable rate savings and fixed rate term deposit customers were located in the core regions as at 31 March 2018.

Term deposits (sometimes referred to as "fixed rate savings accounts" or "time deposits") offer a fixed interest rate for a fixed term. The Group also offers fixed rate cash ISAs.

(e) *Mortgage lending*

As at 31 March 2018, the Group had 0.2 million retail mortgage customers, with 92 per cent. of mortgage balances within Scotland, North of England, South of England and London. The Group successfully increased its mortgage portfolio from £20.5 billion as at 30 September 2015 to £24.1 billion as at 31 March 2018 (of which 68 per cent. were owner occupied mortgages and 32 per cent. were buy-to-let mortgages). Mortgage lending in the UK remains a strategic priority for the Group, with a significant portion of the Group's net interest income derived from interest received on its mortgage portfolio.

(f) *Unsecured Personal Lending*

The Group's unsecured personal lending offerings consist of personal loans, credit cards, and overdraft facilities associated with current accounts, which are originated by the Group through its branch, and other direct channels (e.g. telephony). The Group also remains focused on digital distribution channels (online and mobile) including aggregators.

The Group provides retail and private banking customers with unsecured personal loans through its branch network as well as its digital and telephone channels. The Group's unsecured personal loan portfolio of £755 million as at 31 March 2018 accounted for 3.0 per cent. of total retail lending as at that date. As at 31 March 2018, the loans were held by 0.1 million customers. There has been further recent investment in the digital personal loan proposition, aimed at facilitating additional growth in our personal loan business by digitising the offering to give customers a faster, simpler process with quick access to funds and so moving the bank towards a 'best in class' proposition and customer experience. This functionality is being delivered in phases over 2018.

The Group's credit and charge card portfolio had a total outstanding balance of £382 million as at 31 March 2018. As at 31 March 2018, the Group had over 400,000 credit card customers having opened approximately 56,000 new credit card accounts in the twelve months prior.

(g) *Payment and Merchant Services*

The Group is a direct participant in all UK payment schemes, Euro Clearings and fulfils global transactions through SWIFT and its network of correspondent banks. This allows the Group to provide full payment services to both retail and business customers.

Clydesdale Bank/Yorkshire Bank merchant services are enabled by Worldpay UK Limited and enable businesses to accept credit and debit card payments. These merchant services are available to business and private banking customers.

(h) *Insurance*

The Group offers home and contents insurance, life and critical illness insurance, life insurance for individuals over 50 years of age, commercial insurance, car insurance and travel insurance, among other insurance products. These products are underwritten by third parties and distributed by the Group to customers. The Group receives commissions and other payments in connection with these arrangements.

### ***SME Banking***

The Group's SME lending portfolio was £7.4 billion as at 31 March 2018. This represents an increase of approximately £0.1 billion in the period (2.6 per cent. annualised) from £7.3 billion as at 30 September 2017, ahead of system growth of 2.2 per cent. The Group 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 2019. The Group has continued to implement a number of new propositions and developed new capabilities to better support the funding needs of our SME customers.

The SME portfolio remains well positioned. Underlying asset quality is resilient and stable, reflective of the diversity within the portfolio as a result of controlled risk appetite and an economic environment which continues to support business performance. The impaired asset portfolio has reduced to £114 million as at 31 March 2018 from £126 million as at 30 September 2017, which is its lowest level for more than 10 years.

The Group offers its SME customers a full range of business banking products and services to meet their banking needs across its Business Direct, small business, commercial and specialist and acquisition finance segments.

The alternative package proposed by the UK authorities to replace the commitment for RBS to divest Williams & Glyn, required as part of the RBS Alternative Remedies Scheme, has received significant focus across the business banking sector since its announcement in September 2017. It is currently planned that in 2018, eligible "challenger banks" can apply to participate in an Incentivised Switching Scheme through which certain RBS SME customers (former W&G customers) will be financially incentivised to switch their BCAs from RBS to participating "challenger" banks. In addition, "challenger banks" and other small financial services and FinTech firms offering SME banking and financial services (or with ambitions to offer such services) will be 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. Applicant firms will be required to set out how potential investments would improve their own SME banking proposition and enhance competition across the wider UK SME banking market. 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 the "challenger" segment.

The Group intends to play a material part in both the Incentivised Switching Scheme and to bid for a 'Pool A' award under the Capability and Innovation Fund (which has three amounts available: £60 million; £100 million; and £120 million). The Group believes it is well placed to be a beneficiary of the Incentivised Switching Scheme.

#### ***(a) Relationship Management Based Operating Model***

The Group's business and private banking services are built upon a relationship management model, providing customers with access to a relationship manager, with wide banking knowledge and access to a network of sector specialists, committed to helping the customer meet their banking needs and financial requirements. Business customers benefit from additional product and sector expertise, with dedicated sector teams available to deliver solutions to customers.

(b) *Customers*

The Group offers a full range of SME banking products and services to approximately 231,000 SME customers as at 31 March 2018, comprised of the following:

- micro businesses (which the Group defines as businesses with no lending outstanding and turnover of less than £250,000, constituting approximately 43 per cent. of business customers);
- Business Direct (which the Group defines as businesses with outstanding lending of less than £0.25 million and turnover of less than £2.0 million, constituting 46 per cent. of business customers and 9 per cent. of the Group's total revenue for the business and banking segment); and
- medium businesses (which the Group defines as businesses with lending of higher than £0.25 million and greater than £2.0 million in turnover, constituting 11 per cent. of business customers (including 1,800 specialist and acquisition finance customers and 3,600 national business solutions customers) and 90 per cent. of the Group's total revenue for the segment).

Across all business segments, the Group provides working capital solutions to business customers through asset finance, invoice finance, international trade, merchant acquiring and treasury solutions.

(c) *Business Lending*

The Group offers SME customers a full range of business lending products and services designed to meet their needs. For the 12 month period to 31 March 2018, the Group made approximately 46,000 credit decisions for business customers. In making business decisions, the Group focuses on, among other things, the sustainability of customer earnings and cash flow as the primary credit consideration with asset security as a secondary credit consideration.

(d) *Business Current Accounts & Deposits*

The Group offers new business customers 25 months free day-to-day banking with its Business Current Account. Designed for the basic management of everyday business banking needs, the account offers the full services of a current account, with the option of an agreed overdraft. The Group's relationship-based approach means customers have personal attention from a business banking contact along with internet banking services and a mobile app.

As at 31 March 2018, the Group had an estimated 3.4 per cent. share of active BCAs in the UK, with a total BCA balance of £6.1 billion. The Group has continued to grow the number of BCAs it operates, opening 7,136, 6,925, 6,761, 5,908, in the first, second, third and fourth quarters of financial year 2017, respectively, and 5,738 and 7,806 in the first and second quarters of financial year 2018, respectively.

## **Capital**

As at 31 March 2018, the Group's capital position was:

- Common Equity Tier 1 ratio was 11.3 per cent.;
- Total Capital Ratio was 16.7 per cent.; and
- UK Leverage Ratio was 7.0 per cent.

For further information, please also refer to the paragraph entitled “Strong capital position” under the heading “*Part I Information About the Offer*” on page 85 of the 2018 Virgin Money Proposed Acquisition and Share Prospectus, sections of which are incorporated by reference into this Base Prospectus.

## **Strategy of the Combined Group**

### *Overview*

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 Combined Group. The wider group of Virgin companies also provides attractive opportunities for partnerships and collaboration.

### *Efficiency*

The Issuer intends to improve the Combined 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. The Issuer has made considerable progress against these goals and as at 31 March 2018 had delivered gross annual cost savings of £120 million.

#### *Capital optimisation*

The Issuer intends to secure IRB accreditation for its mortgage portfolio in October 2018 and remainder of the bank in the 2019 financial year. Moving to IRB will improve the Issuer's competitive positioning, bring a stronger alignment of risk appetite and strategy, and reduce the intensity of our risk weighted assets and potential future bail-in debt requirement (MREL).

The Issuer's IRB accreditation application is now in the final stages of the regulatory process. If accreditation is achieved, the Issuer will work with the PRA to determine its go-forward regulatory capital requirement.

As previously guided, the adoption of IRB models is expected to result in a material reduction in the Issuer's credit RWAs and a consequential increase in the Group's CET1 ratio. The Issuer will work through the opportunities this may afford the Combined Group during the 2019 financial year and consult with stakeholders when appropriate.

#### **Liquidity and 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 Group has improved its funding position and reduced its funding costs between 30 September 2015 and 31 March 2018 by growing its lower-cost current account funding, which increased from £13.0 billion as at 30 September 2015 to £14.0 billion as at 31 March 2018, increasing its medium- and long-term wholesale funding and reducing the volume of its more expensive fixed-rate term deposits. As at 31 March 2018, customer deposits of £28.4 billion accounted for 80 per cent. of the Group's funding base (defined as customer deposits, debt securities in issue and amounts due to other banks, which totalled £35.6 billion at 31 March 2018).

#### ***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 31 March 2018, the Group's liquidity coverage ratio ("**LCR**") was 131 per cent. and its net stable funding ratio ("**NSFR**") was 119 per cent.

The Group maintains a liquid asset portfolio that includes primarily cash in deposits with central banks and UK Government gilts. 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 31 March 2018, the Group held unencumbered liquid assets of £4,722 million.

## **Funding**

The Group has a diversified funding base, with the majority of the Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts.

The Group monitors its LDR and this was 116 per cent. and 115 per cent. as at 31 March 2017 and 31 March 2018, respectively.

The Group also actively seeks to diversify its funding mix through RMBS and covered bond programmes, differentiating its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. As at 31 March 2018, the Group had securities in issue with a value of £2,898 million from RMBS, £740 million from covered bonds and £297 million from medium term notes. The RMBS notes currently in issue have maturity dates ranging from 2054 to 2069, although their average life cannot be stated because the actual rate of repayment of the mortgage loans and redemption of the mortgages and a number of other relevant factors are unknown. However, it is expected that, subject to having sufficient funds and to other commercial considerations, the issuers of the relevant notes will exercise their options to redeem the notes in full on their respective step-up dates. The covered bonds in issue have a final maturity date falling in June 2026. The medium term notes in issue have a final maturity date falling in June 2025.

## **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. As at 31 July 2018, there were approximately 50 active members left in the DB Scheme.

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 31 March 2018:

	<b><u>£ million</u></b>
Value of assets .....	4,098
Value of liabilities .....	3,876
	<hr/>
<b>Surplus/(Deficit)</b> .....	<b><u>222</u></b>
Funding Level .....	105.71%

### ***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:

<b>Name</b>	<b>Position</b>	<b>Principal directorships</b>
James Pettigrew	Chairman, Non-Executive Director	BlueBay Asset Management (Services) Ltd BlueBay Asset Management LLP 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
Debbie Crosbie	Group Chief Operating Officer	

<b>Name</b>	<b>Position</b>	<b>Principal directorships</b>
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
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	
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. 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



Name	Position	Principal directorships
		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 Denholm Oilfield Services Limited
Fiona MacLeod	Independent Non-Executive Director	
Dr Teresa Robson-Capps	Independent Non-Executive Director	Hastings Group Holdings PLC Yorkshire Water Services Limited FIL Holdings (UK) Limited
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 Limited 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.

### Proposed Directors

The proposed directors of the Issuer as set out below, who will become directors of the Issuer following Completion (subject to regulatory approval), are:

Name	Position
Geeta Gopalan (1)	Independent Non-Executive Director

<b>Name</b>	<b>Position</b>
Darren Pope (1)	Independent Non-Executive Director
Amy Stirling (1)	Non-Executive Director

**Note**

(1) Subject to PRA approval.

## TAXATION

### United Kingdom

*The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current United Kingdom tax law as applied in England and Wales and the practice of HMRC (which may not be binding), both of which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. Prospective Noteholders should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that series of Notes. 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. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders 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, Noteholders 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.*

#### **United Kingdom Withholding Tax on United Kingdom Source Interest**

1. Any Notes issued by the Issuer which carry a right to interest will constitute “**quoted Eurobonds**” provided they either are and continue to be listed on a recognised stock exchange or admitted to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Notes will be “listed on a recognised stock exchange” for this purpose if they are admitted to trading on a recognised stock exchange (for the purposes of Section 1005 of the Income Tax Act 2007) and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange (for the purposes of Section 1005 of the Income Tax Act 2007).

The London Stock Exchange is a recognised stock exchange for these purposes, and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the Regulated Market of that Exchange.

2. Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax if the Notes constitute “**regulatory capital securities**” for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the “**2013 Regulations**”) and there are no arrangements, the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the 2013 Regulations in respect of the Notes.

A Note will constitute a “regulatory capital security” for the purposes of the 2013 Regulations if the Note qualifies, or has qualified, as a Tier 2 instrument under Article 63 of the Commission Regulation (EU) No. 575/2013 and forms, or formed, a component of Tier 2 capital for the purposes of Commission Regulation (EU) No 575/2013.

3. In all cases falling outside the exemptions described in 1 and 2 above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent., subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply). However, such withholding or deduction will not apply if the relevant interest is paid on Notes with a maturity of less than one year from the date of issue and which are not issued under a scheme of arrangements the effect or intention of which is, to render such Notes part of a borrowing with a total term of a year or more.

#### ***Other Rules Relating to United Kingdom Withholding Tax***

4. Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element of such Notes will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above.

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders 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. Where a payment on a Note does not constitute (or is not treated as) interest for United Kingdom tax purposes, and the payment has a United Kingdom source, it would potentially be subject to United Kingdom withholding tax if, for example, it constitutes (or is treated as) an annual payment or a manufactured payment for United Kingdom tax purposes (which will be determined by, amongst other things, the terms and conditions specified by the Final Terms of the Note). In such a case, the payment may fall to be made under deduction of United Kingdom tax (the rate of withholding depending on the nature of the payment), subject to such relief as may be available.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer as principal debtor pursuant to Condition 17(C) (*Substitution*) or otherwise and does not consider the tax consequences of any such substitution.

#### **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 1 January 2019. 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.**

### **The proposed financial transactions tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (A) by transacting with a person established in a participating Member State or (B) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Lloyds Bank Corporate Markets plc, Merrill Lynch International, Morgan Stanley & Co. International plc and NatWest Markets Plc, or such other dealers as may be appointed either generally in respect of the Programme or in relation to a particular Tranche of Notes (together, the “**Dealers**”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a programme agreement dated 7 September 2018 (as amended or restated from time to time, the “**Programme Agreement**”) and made between the Issuer, the Arranger and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. Notes so subscribed under the Programme Agreement may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes. The Notes may also be issued by the Issuer through all or any of the Dealers acting as agents.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement may be terminated in relation to all or any of the Dealers by the Issuer or, in relation to itself and the Issuer by any Dealer, at any time on giving not less than 30 days’ written notice.

**United States of America:** *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed (and each additional Dealer named in the Final Terms will be required to represent and agree) that in addition to the relevant U.S. Selling Restrictions set forth below:

- (A) except to the extent permitted under the TEFRA D Rules, it has not offered or sold, and during the restricted period it will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a U.S. person;
- (B) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. person (except to the extent permitted under the TEFRA D Rules);

- (C) if it is a U.S. person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance, and if it retains Notes in bearer form for its own account, it will do so in accordance with the requirements of the TEFRA D Rules;
- (D) with respect to each affiliate or distributor that acquires Notes in bearer form from the Dealer for the purpose of offering or selling such Notes during the restricted period, the Dealer either repeats and confirms the representations and agreements contained in paragraphs (A), (B) and (C) above on such affiliate's or distributor's behalf or agrees that it will obtain from such distributor for the benefit of the Issuer the representations and agreements contained in such paragraphs; and
- (E) it shall obtain for the benefit of the Issuer the representations, undertakings and agreements contained in paragraphs (A), (B), (C) and (D) above from any person other than its affiliate with whom it enters into a written contract, (a "**distributor**" as defined in U.S. Treasury Regulation section 1.163-5(c)(2)(i)(D)(4)), for the offer or sale during the restricted period of the Notes.

Terms used in this section shall have the meanings given to them by the Internal Revenue Code and the regulations thereunder, including the TEFRA D Rules.

Where the rules under the TEFRA C Rules are specified in the relevant final terms as being applicable in relation to any Notes, the Notes must, in accordance with their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer has represented and agreed (and each additional Dealer named in the Final Terms will be required to represent and agree) that, in connection with the original issuance of the Notes:

- (A) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions; and
- (B) it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Notes.

Each Dealer has represented and agreed that and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it has not offered, sold or, in the case of Bearer Notes, delivered and will not offer, sell or, in the case of Bearer Notes, deliver the Notes (1) as part of their distribution at any time, or (2) otherwise until 40 days after the later of the commencement of the offering of the Notes or the relevant issue date, only in accordance with Rule 903 of Regulation S and Rule 144A or any other available exemption from registration 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 with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer and its affiliates also agree that it will have sent to each dealer to which it sells Notes during the distribution compliance period other than resales pursuant to Rule 144A, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act if such sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to persons that are not U.S. persons in reliance on Regulation S. Notwithstanding the foregoing, Dealers nominated by the



Issuer may arrange, through their U.S.-registered broker dealer affiliates, for the offer and resale of Registered Notes to QIBs in the United States pursuant to Rule 144A. Each purchaser of such Notes is hereby notified that the offer and sale of such Notes may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person (as defined in Regulation S), other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any person that is not a U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such person that is not a U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such person that is not a U.S. person or QIB, is prohibited.

### **Prohibition of Sales to EEA Retail Investors**

Unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (1) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (2) a customer within the meaning of the Insurance Mediation Directive (2002/92/EC), as amended (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(A) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:

- (1) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
- (2) it has not offered or sold and will not offer or sell any Notes other than to persons:
  - (a) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
  - (b) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (B) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (C) **General compliance:** 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.

## Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

## Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (A) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are “structured products” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong other than (1) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (2) 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
- (B) 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 Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

## General

With the exception of the approval by the FCA of this Base Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom, no representation is made that any action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Notes, or

possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession, or distribute such offering material, in all cases at their own expense.

The Programme Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the preceding paragraph.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Series of Notes) or (in any other case) in a supplement to the Base Prospectus.

The Issuer has given an undertaking to the Dealers in connection with the listing of any Notes on the Official List to the effect that if after preparation of the Base Prospectus for submission to the FCA it becomes aware that there is a significant new factor, material mistake or inaccuracy relating to the information contained in the Base Prospectus published in connection with the admission of any of the Notes to the Official List, it shall give to each Dealer full information about such change or matter and shall publish a supplemental Base Prospectus as may be required by the FCA, under Section 87G(2) of the FSMA or by the prospectus rules made by the FCA and shall otherwise comply with section 87G of the FSMA and the prospectus rules in that regard and shall supply to each Dealer such number of copies of the supplemental Base Prospectus as it may reasonably request.

## TRANSFER RESTRICTIONS

### Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (A) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:
  - (1) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and
  - (2) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (B) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:
  - (1) in an offshore transaction to persons that are not U.S. persons occurring outside the United States in accordance with Rule 903 or Rule 904 of Regulation S;
  - (2) to the Issuer; or
  - (3) in the case of Unrestricted Registered Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of one or more QIBs,in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States;
- (C) it understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION UNDER THE SECURITIES ACT.”; and
- (D) it understands that the Issuer, the Trustee, the Registrars, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

On or prior to the 40th day after the later of the commencement of the offering of the Notes or the relevant issue date, Notes represented by an interest in an Unrestricted Global Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Certificate only upon receipt by the relevant Registrar of a written certification from the transferor (in the form set out in Schedule 5 to the Trust Deed) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state or other jurisdiction of the United States. After such 40<sup>th</sup> day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject

to the transfer restrictions contained in the legend appearing on the face of such Global Certificate, as described above under “*Forms of the Notes*”.

Notes represented by an interest in a Restricted Global Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Certificate, but only upon receipt by the relevant Registrar of a written certification from the transferor (in the form set out in Schedule 5 to the Trust Deed) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Certificate and become an interest in a Note represented by a Restricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Certificate.

### **Rule 144A Notes**

Each purchaser of Restricted Registered Notes in reliance on Rule 144A, by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

- (A) the purchaser is (1) a QIB, (2) acquiring the Notes for its own account or for the account of one or more QIBs, (3) not formed for the purpose of investing in the Notes or the Issuer and (4) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;
- (B) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of their respective affiliates, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States and (2) it will, and each subsequent holder of the Restricted Registered Notes is required to, notify any purchaser of the Restricted Registered Notes from it of the resale restrictions applicable to the Restricted Registered Notes;
- (C) the purchaser understands that the Restricted Global Certificate and any restricted Individual Certificate (a “**Restricted Individual Certificate**”) will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR ANY SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE

MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, (2) TO A PERSON THAT IS NOT A U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THIS NOTE OR (5) TO THE ISSUER OR ITS AFFILIATES.

- (D) if it is acquiring any Notes for the account of one or more QIBs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (E) the purchaser understands that the Issuer, the Trustee, the Registrars, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Upon the transfer, exchange or replacement of a Restricted Global Certificate or a Restricted Individual Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Certificate or one or more Restricted Individual Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the relevant Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in a Restricted Global Certificate and become an interest in an Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Certificate.

**Prospective purchasers that are QIBs are hereby notified that sellers of the Restricted Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

## GENERAL INFORMATION

### Authorisation

1. The establishment of the Programme was authorised by resolutions of the Board of Directors of the Issuer on 25 January 2017. The update of the Programme was authorised by resolutions of the Board of Directors of the Issuer on 28 November 2017. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment and update of the Programme and the Issuer will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.
2. The price of a Series of Notes on the price list of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest, if any). The admission of the Programme to trading on the Market is expected to be granted on or around 11 September 2018 for a period of 12 months. Any Series of Notes intended to be admitted to trading on the Market will be so admitted to trading upon submission to the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the Global Note or Global Certificate representing Notes of that Series. If such Global Note is not issued, the issue of such Notes may be cancelled. Prior to admission to trading, dealings in the Notes of the relevant Series will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

### Legal Proceedings

3. Save as disclosed in relation to historic sales of PPI and IRHP in the sections entitled *“Risk Factors — Risks relating to the operation of the Group’s business — The Group is and, following Completion, the Combined Group will be subject to risks associated with compliance with a wide range of laws and regulations”* and *“Risk Factors — Risks relating to the operation of the Group’s business — The Group and, following Completion, the Combined Group faces risks relating to complaints and redress issues from sales of historic financial products, which may not be covered by existing provisions”* on pages 26 to 27 and 35 to 36, respectively, of this Base Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer are aware), which may have or have had during the 12 months preceding the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and/or the Group.

### Significant/Material Change

4. There has been no material adverse change in the prospects of the Issuer or the Group since 30 September 2017, nor any significant change in the financial or trading position of the Issuer or the Group since 30 June 2018.

### Auditors

5. The annual consolidated accounts of the Issuer for the year ended 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.

## Documents on Display

6. Copies of the following documents may be inspected during normal business hours at the specified office of the Issuer, at 20 Merrion Way, Leeds LS2 8NZ, United Kingdom, and at the specified office of the Principal Paying Agent, at Citigroup Centre, Canada Square Canary Wharf, London E14 5LB, United Kingdom, for 12 months from the date of this Base Prospectus. In the case of (B), (C), (D), (E), (F) and (G) below, these documents shall also be available in electronic form at <http://www.cybg.com/investor-centre/>, in the case of (H), (I), (J), (K) and (L) below, these documents shall also be available in electronic form at <https://uk.virginmoney.com/virgin/investor-relations/results-and-presentations/> and, in the case of (O) below at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>:

- (A) the Articles of Association of the Issuer;
- (B) the 2016 Audited Financial Statements;
- (C) the 2016 Annual Report;
- (D) the 2017 Audited Financial Statements;
- (E) the 2017 Annual Report;
- (F) the 2018 Interim Financial Statements;
- (G) the 2018 Third Quarter Trading Update;
- (H) 2016 Virgin Money Audited Financial Statements;
- (I) 2017 Virgin Money Audited Financial Statements;
- (J) 2018 Virgin Money Interim Financial Statements;
- (K) 2018 Virgin Money Proposed Acquisition and Share Prospectus;
- (L) the Chairman's Letter;
- (M) the Trust Deed (which contains the forms of Notes in global and definitive form);
- (N) the Agency Agreement;
- (O) the current Base Prospectus in respect of the Programme;
- (P) any supplement or drawdown prospectus published since the most recent base prospectus was published and any documents incorporated therein by reference; and
- (Q) any Final Terms issued in respect of Notes admitted to listing and/or trading by the listing authority and/or stock exchange since the most recent base prospectus was published.



## Clearing of the Notes

7. The Notes may be accepted for clearance through the Clearstream, Luxembourg and Euroclear systems and DTC (which are entities in charge of keeping the records). The common code or CUSIP number for each Series of Notes allocated by Clearstream, Luxembourg and Euroclear or DTC will be contained in the relevant Final Terms, along with the International Securities Identification Number for that Series. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42, Avenue J.F. Kennedy, L-1855 Luxembourg. The address of The Depository Trust Company is 55 Water Street, New York, NY10041-0099, United States of America.

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

8. The following legend will appear on all Permanent Global Notes with maturities of more than 365 days and on all Definitive Notes, Coupons and Talons: *“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”.*

## Issue Price and Yield

9. Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Notes, the purchase price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche. The yield of each Tranche of Notes set out in the relevant Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

## Dealers Transacting with the Issuer

10. Certain of the Dealers 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 Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, 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 Dealers 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 Dealers 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 Dealers 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 issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers 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.

**PRINCIPAL OFFICE OF THE ISSUER**

**CYBG PLC**

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Leeds LS2 8NZ  
United Kingdom

**TRUSTEE**

**Citicorp Trustee Company Limited**

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Canada Square  
Canary Wharf  
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United Kingdom

**PRINCIPAL PAYING AGENT, CALCULATION AGENT AND TRANSFER AGENT**

**Citibank, N.A., London Branch**

Citigroup Centre  
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Canary Wharf  
London E14 5LB  
United Kingdom

**REGISTRAR**

**Citigroup Global Markets Europe AG**

Agency & Trust Department  
5th Floor Reuterweg 16  
60323 Frankfurt  
Germany

## **ARRANGER**

### **Morgan Stanley & Co. International plc**

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Canary Wharf  
London E14 4QA  
United Kingdom

## **DEALERS**

### **Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
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### **Citigroup Global Markets Limited**

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Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

### **Credit Suisse Securities (Europe) Limited**

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London E14 4QJ  
United Kingdom

### **Lloyds Bank Corporate Markets plc**

10 Gresham Street  
London EC2V 7AE  
United Kingdom

### **Merrill Lynch International**

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### **Morgan Stanley & Co. International plc**

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### **NatWest Markets Plc**

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## **LEGAL ADVISERS**

*To the Issuer:*

### **Simmons & Simmons LLP**

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*To the Dealers and the Trustee:*

### **Linklaters LLP**

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London EC2Y 8HQ  
United Kingdom

## **AUDITORS**

### **Ernst & Young LLP**

1 More London Place  
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