



CYBG PLC

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

£450,000,000 8 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes

The issue price of the £450,000,000 8 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "**Notes**") of CYBG PLC (the "**Issuer**") is 99.924 per cent. of their principal amount. On issue, all of the Notes will be subscribed for by National Australia Bank Limited ("**NAB**").

From (and including) 8 February 2016 (the "**Issue Date**") to (but excluding) 8 December 2022 (the "**First Reset Date**"), the Notes bear interest at the rate of 8 per cent. per annum. From (and including) each Reset Date to (but excluding) the next following Reset Date, the Notes will bear interest at a rate which is the aggregate of the margin of 6.25 per cent. per annum and the applicable 5-year sterling mid-market swap rate. **The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date.** Subject to the conditions set out herein, interest, if any, shall be payable semi-annually in arrear on 8 June and 8 December of each year (each an "**Interest Payment Date**"), except that the first date on which interest may be paid will be 8 June 2016 (also an "**Interest Payment Date**") in respect of the period beginning on (and including) the Issue Date and ending on (but excluding) 8 June 2016. Payments on the Notes shall be made in pounds sterling without deduction for or on account of taxes imposed or levied by the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, except in the circumstances described under "*Terms and Conditions of the Notes—Taxation*".

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

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

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

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

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

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

Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the approval of these Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange and to trading on the global exchange market (the "**Global Exchange Market**") which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**").

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

The Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 1 to 2 of these Listing Particulars for further information.

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

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

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

The Notes are expected to be rated by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and Fitch Ratings Ltd. ("**Fitch**") after the Issue Date. S&P and Fitch are established in the European Economic Area (the "**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). S&P and Fitch appears on the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the European Securities and Markets Authority ("**ESMA**") website <http://www.esma.europa.eu>.

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

Dated: 8 February 2016

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IMPORTANT NOTICES

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

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

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in these Listing Particulars or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or NAB.

Neither NAB nor any of its affiliates (which, for the avoidance of doubt, does not include the Issuer) have authorised the whole or any part of these Listing Particulars and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in these Listing Particulars. Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of these Listing Particulars.

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

The distribution of these Listing Particulars and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars come are required to inform themselves about and to observe any such restrictions.

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

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

Restrictions on marketing and sales to retail investors

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

In particular, in June 2015, the UK Financial Conduct Authority (the "FCA") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**").

Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "**PI Rules**"):

- (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Notes, must not be sold to retail clients in the EEA (as defined herein); and

- (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

NAB is required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or NAB each prospective investor represents, warrants, agrees with and undertakes to the Issuer and NAB that:

1. it is not a retail client in the EEA (as defined in the PI Rules);
2. whether or not it is subject to the PI Rules, it will not:
 - (a) sell or offer the Notes (or any beneficial interest therein) to retail clients in the EEA; or
 - (b) communicate (including the distribution of these Listing Particulars or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules),

in any such case other than (i) in relation to any sale or offer to sell Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (A) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (B) it has at all times acted in relation to such sale or offer in compliance with the MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or NAB the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

The Notes are complex financial instruments

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in these Listing Particulars;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the potential investor's currency is not pounds sterling;
- (iv) understand thoroughly the terms of the Notes, such as the provisions governing an Automatic Conversion (including, in particular, the circumstances under which a Trigger Event may occur) and the situations in which interest payments may or shall be cancelled; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

In these Listing Particulars, references to the "**CYBG Group**" are to CYB Investments Limited (formerly National Australia Group Europe Limited) ("**CYBI**") and its consolidated subsidiaries and subsidiary undertakings prior to the Demerger (as defined herein) and, thereafter, the Issuer and its consolidated subsidiaries and subsidiary undertakings from time to time and references to the "**NAB Group**" are to NAB and its consolidated subsidiaries, excluding the Issuer and CYBI.

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

IMPORTANT INFORMATION – FORWARD-LOOKING STATEMENTS

Some of the statements in these Listing Particulars include forward-looking statements which reflect CYBG Group's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to CYBG Group's business). These forward-looking statements relate to CYBG Group and the sectors and industries in which CYBG Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "estimates", "will", "targets", "aims", "may", "should", "would", "could", "continue", "budget", "schedule" and similar statements of a future or forward-looking nature identify forward-looking statements.

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 CYBG Group's actual results to differ materially from those indicated in these statements. These factors include, but are not limited, to those described in "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in these Listing Particulars.

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

Subject to any obligations under listing and admission to trading rules of the Global Exchange Market (as amended from time to time), the Issuer undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, events or circumstances or otherwise. All subsequent written and oral forward-looking statements attributable to CYBG Group or individuals acting on behalf of CYBG Group are expressly qualified in their entirety by this section.

INFORMATION INCORPORATED BY REFERENCE

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

- the historical financial information of the CYBG Group as at and for the four years ended 30 September 2015 (the "**Historical Financial Information**") as set out in Section B of "*Part 8—Historical Financial Information*" on pages 274 to 372 of the equity prospectus dated 3 February 2016 in relation to the admission of the ordinary shares of the Issuer to the premium listing segment of the Official List of the UK Financial Conduct Authority (the "**Official List**") and to trading on the London Stock Exchange plc's ("**London Stock Exchange**") main market for listed securities (the "**Equity Prospectus**");
- the section set out on pages 198 to 203 of the Equity Prospectus titled "*Part 5—Operating and Financial Review—Significant Factors Affecting Results of Operations and Financial Position—Legacy conduct-related redress*";
- the section set out on page 191 of the Equity Prospectus titled "*Part 5—Operating and Financial Review—Recent Developments*"; and
- the unaudited pro forma financial information dated 30 September 2015 and the accountant's report thereon (the "**Pro Forma Financial Information**") as set out in "*Part 9—Unaudited Pro Forma Financial Information*" on pages 373 to 376 of the Equity Prospectus.

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

Those parts of the Equity Prospectus which are not specifically incorporated by reference in these Listing Particulars are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in these Listing Particulars. Any information or documents incorporated by reference in the Equity Prospectus shall not form part of these Listing Particulars. Copies of the Equity Prospectus may be obtained (without charge) during usual business hours at the registered office of the Issuer and will also be available to view (free of charge) on the website of the Issuer (<http://www.cybg.com/investors>).

OVERVIEW

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

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

Investing in the Notes involves significant risk. For a discussion of certain risks that should be considered in connection with an investment in the Notes, see "Risk Factors" beginning on page 14 of these Listing Particulars.

Issuer:	CYBG PLC
	The Issuer is a public limited company, incorporated and domiciled in the UK, whose principal activity is to act as the holding company for CYBI and Clydesdale Bank PLC (" Clydesdale Bank ") through which substantially all of CYBG Group's business is transacted. With over 175 years of history, CYBG Group is a leading mid-sized UK retail and SME bank with a long-established customer franchise across its core regions (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. Headquartered in Glasgow, Scotland, CYBG Group offers, through its strong local community brands Clydesdale Bank and Yorkshire Bank, a full range of banking products and services, including mortgages, current accounts, deposits, term lending, personal loans, working capital solutions, overdrafts, credit cards and payment and transaction services.
Trustee:	Citicorp Trustee Company Limited
Registrar:	Citigroup Global Markets Deutschland AG
Principal Paying Agent and Agent Bank:	Citibank N.A., London branch
Notes:	£450,000,000 8 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes
Issue Price:	99.924 per cent. of the principal amount of the Notes
Issue Date:	8 February 2016
Use of Proceeds:	The net proceeds of the issue of the Notes will be used to fund the repurchase of (i) £300,000,000 perpetual capital notes issued on 20 December 2013 and (ii) £150,000,000 perpetual capital notes issued on 29 December 2014, each issued by members of the CYBG Group and to maintain the regulatory capital base of the CYBG Group. See " <i>Use of Proceeds</i> ".
Status of the Notes:	The Notes constitute direct, unsecured and subordinated obligations of the Issuer, ranking <i>pari passu</i> without any preference among themselves. The rights and claims of the Holders in respect of or arising from the Notes (including any damages (if payable)) are subordinated to the claims of Senior Creditors.
Solvency Condition:	Except in a Winding-Up and subject to the right or obligation of the Issuer to cancel payments under the Conditions and the provisions on Automatic Conversion, all payments in respect of or arising from (including any damages awarded for breach of any obligation under) the

Notes are conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Notes except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**").

The Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Issuer's Assets exceed its Liabilities.

Ranking on a Winding-Up:

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

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

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

No Set-off:

Subject to applicable law, no Noteholder may exercise or claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes and each Noteholder will, by virtue of their holding of any Note, be deemed to have waived all such rights of set-off, compensation or retention.

Interest:

The Notes shall bear interest on their outstanding principal amount from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 8 per cent. per annum. From (and including) each Reset Date to

(but excluding) the next following Reset Date, the Notes will bear interest at a rate which is the aggregate of the margin of 6.25 per cent. and the 5-year Mid-Swap Rate (as determined by the Agent Bank on the date falling two Business Days prior to the relevant Reset Date). Subject to the conditions set out herein, interest, if any, shall be payable semi-annually in arrear on 8 June and 8 December of each year, except that the first date on which interest may be paid will be 8 June 2016 in respect of the period beginning on (and including) the Issue Date and ending on (but excluding) the 8 June 2016.

Discretionary cancellation of interest:

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

Mandatory cancellation of interest:

In addition, the Issuer will be required pursuant to Condition 6(a) (*Cancellation of Interest*) to cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date to the extent that:

- (a) such Interest Amount (or part thereof), when aggregated together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current financial year on all other own funds items of the Issuer (excluding any such interest payments or distributions which are not required to be paid or made out of Distributable Items or which have already been provided for, by way of deduction, in calculating the amount of Distributable Items), exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date; or
- (b) the Solvency Condition is not satisfied in respect of such Interest Amount (or part thereof).

In addition to the circumstances described above, Noteholders should be aware that if the combined buffer capital requirements applicable to the CYBG Group were to be breached, the Issuer may be required to exercise its discretion to cancel (in whole or in part) interest payments in respect of the Notes. Any such cancellation may be required if and to the extent that payment of such interest amounts would, when aggregated together with other distributions of the kind referred to in Article 141(2) of the CRD IV Directive (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), cause the "maximum distributable amount" (if any) then applicable to the CYBG Group to be exceeded. See further the risk factor entitled "CRD IV imposes capital requirements that will restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes."

Non-payment of interest sufficient evidence of cancellation

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

Notice of interest

The Issuer shall provide notice of any cancellation of an Interest

cancellation:	Amount (or part thereof) to the Noteholders, the Trustee and the Agents as soon as possible. If practicable, the Issuer shall endeavour to provide such notice at least five Business Days prior to the relevant Interest Payment Date. Any failure to provide such notice shall not affect the cancellation of any Interest Amount (or any part thereof) by the Issuer and shall not constitute a default for any purpose.
Effect of interest cancellation:	The cancellation of any Interest Amount (or any part thereof) in accordance with the Conditions shall not constitute a default for any purpose on the part of the Issuer. For the avoidance of doubt, interest payments are non-cumulative and Holders shall have no right to any cancelled Interest Amount.
Form and Denomination:	The Notes are issued in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Notes are represented by a Global Certificate registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depositary for Euroclear and Clearstream, Luxembourg (together, the " Clearing Systems "). Individual Certificates in definitive form evidencing holdings of Notes will only be available in certain limited circumstances – see " <i>Summary of Provisions relating to the Notes in Global Form</i> ".
Perpetual Notes:	The Notes are perpetual notes and have no fixed maturity or fixed redemption date.
Optional Redemption:	Subject to Supervisory Permission and compliance with the Regulatory Preconditions, the Notes may be redeemed at the option of the Issuer on the First Reset Date and on any Interest Payment Date thereafter in whole but not in part, at an amount equal to their principal amount together with any Accrued Interest.
Tax Redemption:	Subject to Supervisory Permission and compliance with the Regulatory Preconditions, if at any time a Tax Event occurs, the Issuer may redeem the Notes in whole, but not in part, at any time at an amount equal to their principal amount, together with any Accrued Interest, as more fully provided in Condition 8 (<i>Redemption and Purchase</i>).
Regulatory Event Redemption:	Subject to Supervisory Permission and compliance with the Regulatory Preconditions, if at any time a Regulatory Event occurs, the Issuer may redeem the Notes in whole, but not in part, at an amount equal to their principal amount together with any Accrued Interest, as more fully provided in Condition 8 (<i>Redemption and Purchase</i>).
Notice of Redemption:	<p>Any redemption of the Notes shall be subject to the Issuer providing not less than 30 days' nor more than 60 days' prior notice to the Noteholders, the Trustee and the Agents (which notice shall, except in the limited circumstances described in the following paragraph, be irrevocable). The Issuer shall not be entitled to deliver a notice of redemption after an Automatic Conversion Notice has been delivered.</p> <p>If the Issuer has elected to redeem the Notes but (i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption or (ii) prior to the redemption a Trigger Event occurs, the relevant redemption notice shall be of no force and effect and no payment of the redemption amount will be due and payable. In the case of (i), the Issuer shall give notice thereof to the Noteholders, the Trustee and the Agents as soon as practicable or, in the case of (ii), the Automatic Conversion shall occur as described below under "<i>Automatic Conversion on a Trigger Event</i>" below.</p>

Purchases:	The Issuer or any of its Subsidiaries may, at its option but subject to the Solvency Condition and Supervisory Permission, purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements.
Trigger Event:	A " Trigger Event " shall occur if the Common Equity Tier 1 Capital Ratio of the Group falls below 7.00 per cent.
Conversion Price:	The Conversion Price of the Notes is £1.19 per Conversion Share, subject to adjustment in accordance with certain anti-dilution adjustments (the " Conversion Price ").
Automatic Conversion on a Trigger Event:	<p>If a Trigger Event occurs at any time, then an Automatic Conversion will occur on the Conversion Date, at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient in accordance with the terms of the Notes) on the Conversion Date at the then prevailing Conversion Price. Under no circumstances shall such released obligations be reinstated. The Automatic Conversion shall occur without delay upon the occurrence of a Trigger Event and by no later than one month following such Trigger Event (or such shorter period as the Competent Authority may then require).</p> <p>The Issuer shall immediately notify the Competent Authority of the occurrence of the Trigger Event and shall deliver an Automatic Conversion Notice to the Holders, the Trustee and the Agents without delay after such time.</p> <p>The Notes are not convertible into Conversion Shares at the option of the Noteholders at any time.</p>
Consequences of Automatic Conversion:	<p>Following an Automatic Conversion, no Holder will have any rights against the Issuer with respect to the repayment of the principal amount of the Notes or the payment of interest or any other amount on or in respect of such Notes, which liabilities of the Issuer shall be irrevocably and automatically released and, accordingly, the principal amount of the Notes shall equal zero at all times thereafter. Any Interest Amount in respect of an Interest Period ending on any Interest Payment Date falling between the date of a Trigger Event and the Conversion Date shall be deemed to have been cancelled upon the occurrence of such Trigger Event and shall not be due and payable.</p> <p>Following the issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as applicable) on the Conversion Date, the Notes shall remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the Holder's right to receive Conversion Shares or, if the Issuer elects that a Conversion Shares Offer be made as described under "<i>Conversion Shares Offer</i>" below, Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary (or such other relevant recipient).</p> <p>The Issuer currently expects that beneficial interests in the Notes will be transferable until the Suspension Date and that any trades in the Notes would clear and settle through the Clearing Systems until such date. However, there is no guarantee that an active trading market will exist for the Notes following the Automatic Conversion. The Notes may cease to be admitted to listing on the official list of the Irish Stock Exchange and to trading on the Global Exchange Market before or after</p>

the Suspension Date.

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

Conversion Shares:

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

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

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

Conversion Shares Offer:

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

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

otherwise received the Conversion Shares Offer Consideration had the Conversion Shares Offer been completed.

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

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

Settlement Procedures:

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

Defaults and Enforcement:

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

Rating:

The Notes are expected to be rated by S&P and Fitch after the Issue Date. S&P and Fitch are established in the EEA and registered under the CRA Regulation. S&P and Fitch appear on the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the ESMA website <http://www.esma.europa.eu>.

Taxation:

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts in respect of any interest on the Notes but not, for the avoidance of doubt, in respect of the payment of any principal in respect of the Notes, as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as described in Condition 11 (*Taxation*).

Governing Law:

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

Listing and Trading:

Applications have been made for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and to trading on the Global Exchange Market. The Notes may cease to be admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market before or after the Suspension Date.

Clearing Systems:	Euroclear and Clearstream, Luxembourg
ISIN:	XS1346644799
Common Code:	134664479

RISK FACTORS

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

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

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

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

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

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

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

As CYBG Group's customer base is predominantly based in the UK, CYBG Group is significantly exposed to the condition of the UK economy. In particular, factors such as UK house prices, levels of employment, interest rates and the amount of consumers' disposable income can each have a material impact on its business. Should macro-economic conditions in the UK deteriorate or should there be uncertainty and/or volatility in relation to these factors, this could adversely impact CYBG Group's business, results of operations, financial condition and prospects.

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

The historical results of operations and financial condition of CYBG Group have been, and its future results of operations and financial condition are likely to continue to be, affected by these factors, which should they have an adverse effect on consumer confidence, spending or demand for credit, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

Historically, downturns in the UK economy have had a negative effect on the UK housing market. A fall in property prices could result in borrowers having insufficient equity to refinance their mortgage loans or being unable to sell the mortgaged property at a price sufficient to repay the amounts outstanding on the mortgage loan, which could lead to an increase in customer defaults. Increased defaults could lead to higher impairment provisions and losses being incurred by CYBG Group. Higher impairment provisions could reduce CYBG Group's capital and its ability to engage in lending and other income-generating activities. As a result, a decline in house prices could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

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

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

In October 2014, the 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 ("**FPC**"), a Bank of England committee responsible for ensuring financial stability. For CYBG Group to maintain and grow its mortgage portfolio, the prices of new and existing properties must be at levels, relative to the income of purchasers, to allow them to borrow within the parameters of these regulatory restrictions on lending. If house prices are at too high a multiple of customer income, whether as a result of rising house prices and/or low customer income growth, potential customers will be unable to borrow and the supply of mortgages will decrease.

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

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

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

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

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

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

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

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

During the years ended 30 September 2015, 2014, 2013 and 2012, the sustained period of low interest rates has resulted in lower returns on low interest bearing and non-interest bearing current accounts and capital, reducing CYBG Group's net interest income and net interest margin. CYBG Group's business and financial performance and net interest income and margin may continue to be adversely affected by the continued low interest rate environment.

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

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

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

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

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

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

As a UK bank focused on retail and SME customers, CYBG Group's business performance is impacted by the economic health and employment status of its customers, a principal driver of which is overall employment levels, principally in the UK. Higher levels of unemployment have historically resulted, for example, in a decrease in new mortgage borrowing, lower deposit levels

and reduced or deferred levels of consumer spending, which adversely impact fees and commissions received on credit and debit card transactions as well as demand for unsecured lending. Higher unemployment rates and the resulting decrease in aggregate consumer income can also have a negative impact on CYBG Group's results through an increase in customer loan arrears, forbearance, impairment provisions and defaults. Consequently, sustained high levels of unemployment, particularly in geographic areas where CYBG Group's mortgage portfolio is concentrated, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

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

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

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

other global markets impacting the ability of UK businesses to compete on price, and changes in demand for credit, the cost of finance for businesses and commodity and asset prices (i.e. bonds, equity securities, oil, agricultural outputs and property prices).

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

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

- (a) increased cost of funding and/or reduced availability of funding;
- (b) deterioration in the value and liquidity of assets (including collateral);
- (c) inability to price or difficulty in pricing certain assets;
- (d) higher provisions for bad and doubtful debts;
- (e) an increased likelihood of customer and counterparty default and credit losses;
- (f) mark to market losses in the value of assets and liabilities;
- (g) economic exposures from hedging activities;
- (h) increased cost of insurance and/or lack of available insurance; and/or
- (i) lower growth, business revenues and earnings.

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

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

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

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

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

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

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

RISKS RELATING TO THE OPERATION OF CYBG GROUP'S BUSINESS

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

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

Regulatory enforcement actions pose a number of risks to CYBG Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, CYBG Group and/or its employees may be subject to other penalties and injunctive relief, civil or private litigation arising out of the same subject matters as a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions. For further details of risks

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

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

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

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

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

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

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

Risks associated with CYBG Group's digital strategy

A core part of CYBG Group's strategy is strengthening its digital platform to support the delivery of a consistent and seamless experience for customers through CYBG Group's omni-channel distribution platform, creating new digital propositions to support new customer acquisition and customer retention, and simplifying its operating platform to improve customer experience and

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

Execution and other risks associated with CYBG Group's strategy

CYBG Group's ability to implement its strategy successfully is subject to execution risks, including those relating to the management of its cost base and limitations in its management and operational capacity. The implementation of CYBG Group's strategy will require management to make complex judgments, including anticipating customer needs and customer behaviour across a wide range of retail and SME banking products, and anticipating competitor activity, legal and regulatory changes and the likely direction of a number of macro-economic factors regarding the UK economy and the retail and SME banking sector. In addition, CYBG Group may fail to achieve management's guidance, targets or expectations in respect of CYBG Group's net interest margin, operating and administrative expenses, standalone costs as a listed entity, return on tangible equity ("**ROTE**"), dividends, growth in mortgage lending, total retail lending and/or SME lending, growth in mortgage market share, SME lending market share, PCA market share and/or BCA market share, or in the development of CYBG Group's asset quality, cost-to-income, jaws, Common Equity Tier 1 capital and/or LDRs, or other financial or key performance indicators. The risk that some or all of these targets and expectations may fail to be achieved may be a consequence of internal factors such as a failure to effectively manage its cost base, and may also be exacerbated or caused by a number of external factors, including a downturn in the UK, European or global economy, increased competition in the UK retail and SME banking sector and/or significant or unexpected changes in the regulation of the financial services sector in the UK or Europe. A failure to successfully manage the implementation of its strategy for the foregoing, or any other, reason, could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

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

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

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

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

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

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

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

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

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

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

CYBG Group aims to maintain a prudent LDR, which means that the majority of its lending is funded by retail and business deposits. As at 30 September 2015, CYBG Group's LDR (defined as customer loans as a percentage of customer deposits) was 109 per cent. Medium-term growth in CYBG Group's lending activities will depend, in part, on the availability of retail and business

deposit funding on acceptable terms, for which there may be increased competition and which is dependent on a variety of factors outside CYBG Group's control. These factors include general macro-economic conditions and market volatility, the confidence of retail and business depositors in the economy, in the financial services industry, in new market entrants and in CYBG Group, as well as the availability and extent of deposit guarantees. Availability of deposit funding may also be impacted by increased competition from other deposit takers as a result of their strategies or factors that constrain the volume of liquidity in the market, including, for example, the end of the UK Government's FLS or the impact of the UK Government's "pensioner bonds" scheme. Increases in the cost of deposit funding would impact CYBG Group's net interest margin and affect its results of operations, and a lack of availability of deposit funding could have a material adverse effect on CYBG Group's future growth.

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

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

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

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

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

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

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

An actual or perceived shortage of capital could have a material adverse effect on CYBG Group's business, which could, in turn, affect the Issuer's capacity to pay future dividends or implement its business strategy, impacting future growth potential. If, in response to any such shortage, the Issuer raises additional capital through the issuance of share capital or capital instruments, existing shareholders 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. CYBG Group may also experience an increased demand for capital as a result of regulatory requirements. For further information, see *"CYBG Group is subject to substantial and changing prudential regulation"* below. Additional capital may also be required to redress issues from historical sales of financial products. Further information is provided in *"CYBG Group faces risks relating to complaints and redress issues from historic sales of financial products. The Capped Indemnity and existing provisions for such issues may not cover all potential costs and losses"* below.

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

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

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

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

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

Capped Indemnity

As part of the separation of CYBG Group's operations from the remaining NAB businesses, to form two independent businesses (each of which will be held under a separate listed company) (the "**Demerger**"), NAB and the Issuer have entered into a conduct indemnity deed on 2 December 2015 (the "**Conduct Indemnity Deed**") under which NAB has agreed, subject to certain limitations, to provide the Issuer with an indemnity (the "**Capped Indemnity**") in respect of certain historic liabilities relating to conduct in the period prior to the date on which the Demerger is implemented, on 8 February 2016 (the "**Demerger Date**"). The conduct issues covered by the Capped Indemnity are referred to as "**Relevant Conduct Matters**". Claims may be made by the Issuer under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter.

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

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

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is £1.115 billion.

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

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

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

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

- Claims relating to Relevant Conduct Matters may exceed the Capped Indemnity Amount.
- The Capped Indemnity is subject to the Loss Sharing Arrangement and therefore the Issuer is only able to claim for the proportion of the relevant provision or increase for conduct costs that falls within the scope of the Capped Indemnity after deduction of the Loss Share and the Issuer will bear the costs of such Loss Share.
- Claims relating to historical conduct matters, other than those in connection with existing known conduct issues relating to: (a) PPI; (b) IRHP which includes Standalone IRHP and Voluntary Scope TBLs; and (c) FRTBLs, must satisfy (or be expected by CYBG Group in good faith to satisfy) the following materiality thresholds (when aggregated with claims of a similar nature) in order to be covered under the Capped Indemnity:
 - for claims relating to an industry wide customer redress programme entered into as part of a settlement with a regulator, claims must exceed £2.5 million, in aggregate, and
 - for all other claims, claims must exceed £5 million, in aggregate, and must also affect more than 50 customers.

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

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

- Whilst the Capped Indemnity covers claims resulting from changes in the generally accepted applications or interpretation of laws or regulations, it does not cover claims arising from the retrospective application of new laws or regulations. Were any new laws or regulations to be applied retrospectively, CYBG Group would bear the costs that may arise, which may have a material effect on CYBG Group's business, reputation, financial condition, results of operations and prospects.
- In the event that a duly appointed expert determines that there is a continuing material non-compliance by the Issuer with its obligations under the Conduct Indemnity Deed, being principally to cooperate in relation to the assessment by the PRA of CYBG Group's potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims under the Capped Indemnity and withdrawals from the Designated Account(s) in respect of payments that have been made to settle customer claims, NAB may suspend or withhold certain payments to the Issuer and the Issuer will be restricted from withdrawing certain amounts from the Designated Account(s). In that event, the Issuer may either not receive, or experience a delay in receiving, payments under the Capped Indemnity or may not withdraw or experience a delay in withdrawing amounts from the Designated Account(s), in each case which relate to the Relevant Conduct Matter in relation to which the Issuer is in material non-compliance.
- The Capped Indemnity Amount as reduced or utilised from time to time in accordance with the Conduct Indemnity Deed (the "**Unutilised Indemnity Amount**") may be permanently reduced following any reassessment by the PRA (in its sole discretion) that the remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount from time to time plus any unutilised Pre-Demerger Provision Amounts and the Issuer's outstanding liability under the Loss Sharing Arrangement (being any unused portion of the Issuer's £120 million share under such arrangement). Such a reduction of the Unutilised Indemnity Amount would be permanent, and should CYBG Group's exposure to Relevant Conduct Matters increase following such a reduction, that increase will not be reflected in any increase in the Capped Indemnity.

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

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

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

For a summary of the Conduct Indemnity Deed see further "*Information on CYBG Group—Conduct*".

Conduct-Related Risks

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

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

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

The key measures for calculating amounts set aside to settle PPI claims used by CYBG Group are: (i) the volume of customer initiated complaints; (ii) expected customer response rate to the proactive engagement programme; (iii) the rate of complaints upheld for which redress payments are provided; (iv) the average amount of each redress payment; and (v) the costs of administration of the claims and redress handling process. CYBG Group's estimates are based on a number of assumptions derived from a combination of past experience, historical data analysis, estimated future outcome, industry comparison and the exercise of judgement by CYBG Group.

Consequently, provision levels remain under review in response to changing circumstances and the position remains fundamentally uncertain. There is a risk that the number of future complaints received by CYBG Group could materially exceed its assumptions on volume and the actual future uphold rates and average redress could materially exceed the levels anticipated by CYBG Group. There is also a risk that the resourcing for the administration of the claims and redress handling process is inadequate to meet regulatory timeframes and additional claims management costs may be incurred in attempting to meet such timeframes. The increasing proportion of claims made where there is no evidence of a PPI sale presents a further challenge in calculating provision amounts. As such there is a risk that existing provisions for PPI customer redress may not cover all potential losses and further provisions will need to be made which, if in excess of the amount of the Capped Indemnity, could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

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

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

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

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

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

In addition to the regulated review of Standalone IRHP, Clydesdale Bank is voluntarily reviewing past sales of the Voluntary Scope TBLs. Clydesdale Bank is also engaged in a complaints led review of FRTBLs, which are not within the scope of the regulated Standalone IRHP review and the Voluntary Scope TBLs review. In February 2015, the FCA announced that

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

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

UK retail banks have been recently experiencing an increase in the number of complaints in relation to sale of packaged bank accounts, being bank accounts that were sold packaged alongside another product such as travel insurance or vehicle breakdown cover. In the period between 1 January 2015 and 30 June 2015 the FOS received 880 new complaint cases against CYBG Group under the banking and credit product complaint category (an increase from 398 complaint cases in the period from 1 July to 31 December 2014), which amongst other products includes packaged bank accounts. Conduct costs relating to packaged bank accounts were below the minimum threshold for cover under the Capped Indemnity as at 30 September 2015 however, they have exceeded the minimum threshold as at 3 February 2016. There is a risk that the number of complaints in connection with the historical sales of banking and credit products, including packaged bank accounts may continue to increase which could result in redress costs and provisions, diversion of management time and effort and/or negative reputational consequences which could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

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

Other conduct provisions include provisions in respect of legal proceedings and claims arising in the ordinary course of CYBG Group's business. These provisions cover a number of historic matters, including CYBG Group's contribution to the banking industry response to the scheme of arrangement of Card Protection Plan and Affinion International, both providers of card and identity protection products. No assurances can be given that CYBG Group will not incur

liability and/or fines in connection with any non-compliance with legislation, further conduct related legal proceedings and claims from customers. CYBG Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, diversion of management time and effort or negative business, regulatory or reputational consequences of continuing to contest liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, CYBG Group may, for similar reasons, reimburse counterparties for their losses even in situations where CYBG Group does not believe that it is legally compelled to do so and, notwithstanding that such action may be covered by the terms of the Capped Indemnity (taking into account the Loss Sharing Arrangement) (described above), such litigation or regulatory proceedings could have a material adverse effect on CYBG Group's reputation, business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

with those incentives or risk a reduction in the amount of new business referred which, in either case, could have an adverse impact on demand for its mortgages.

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

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

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

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

CYBG Group provides mortgages to customers to enable them to purchase property for owner occupation. Such mortgages may be provided on a capital repayment basis, where the loan is repaid during its life, or on an interest-only basis, in which case the customer pays interest during the term of the mortgage loan with the principal balance being required to be repaid in full at maturity. As at 30 September 2015, capital repayment mortgages comprised 70.4 per cent. or £9,919 million of CYBG Group's owner-occupied mortgage loan portfolio and interest-only loans comprised 29.6 per cent., or £4,167 million.

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

While property sale is an acceptable method of repayment for buy-to-let mortgages, owner-occupied mortgage customers taking out interest-only mortgages are required by regulation to have a capital repayment plan. Where such repayment plans are inadequate or have not been executed as planned, CYBG Group is exposed to the risk that the outstanding principal balance on interest-only loans for owner-occupied mortgages is not repaid in full at the contractual

maturity date. CYBG Group provides a variety of solutions to support customers in such instances, but these solutions may not always result in customers being able to repay their loans or to continue to service the interest payments where the capital sum remains outstanding. Where the solutions are unsuccessful there may be increased impairment charges on CYBG Group's owner-occupied mortgage portfolio which could have a material adverse effect on its profitability. The risk increases if, at the maturity of the loan, the customer is no longer in paid employment and is relying on reduced sources of income, such as pension income or unemployment benefits, to continue to meet the loan interest payments and agreed capital repayments.

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

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

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

In the ordinary course of its operations, CYBG Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to CYBG Group's results and financial condition, requires complex judgements, including forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. CYBG Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could materially adversely affect CYBG Group's business, results of operations, financial condition and prospects.

Further, there is a risk that, despite CYBG Group's belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic factors or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in CYBG Group's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments could have a material adverse effect on CYBG Group's business, results of operations, financial condition and prospects.

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

As at 30 September 2015, substantially all of CYBG Group's assets and business is related to customers in the UK, and in the case of mortgages, there are concentrations in Greater London, the rest of the South of England, the North of England and Scotland. The South of England (including Greater London) accounted for approximately 37 per cent. of CYBG Group's

mortgages as at 30 September 2012, 39 per cent as at 30 September 2013, 43 per cent. as at 30 September 2014 and 48 per cent. as at 30 September 2015. Each geographic region within the United Kingdom has different economic features and prospects. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of borrowers in respect of mortgage or other loans in a region that relies to a greater extent on that industry. In the event of adverse economic conditions, including interest rates and levels of unemployment, in regions within the UK where CYBG Group has significant business or assets, concentrations of credit risk could cause CYBG Group to experience greater losses than some competitors.

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

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

CYBG Group depends on a number of third-party providers for a variety of functions including for IT software and platforms, ATM services, payment system services, mobile application services, credit card production services and cheque processing services. CYBG Group relies on the continued availability and reliability of these service providers. If CYBG Group's contractual arrangements with any of these providers are terminated for any reason or any third-party service provider becomes otherwise unavailable or unreliable in providing the service to the required standard, CYBG Group will be required to identify and implement alternative arrangements. CYBG Group may not find an alternative third-party provider or supplier for the services, on a timely basis, on equivalent terms or without incurring a significant amount of additional costs or at all. These factors could cause a material disruption in CYBG Group's operations and could have a material adverse financial or reputational impact on CYBG Group. It may result in a higher risk premium being applied to CYBG Group, and adversely impact the cost of funding its operations, or its financial condition. Reputational damage to CYBG Group's brands caused by the failure of a third-party supplier may also adversely impact CYBG Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

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

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

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

CYBG Group continues to invest in its information security controls in response to emerging threats, such as cyber crime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to CYBG Group and the UK financial system, which has a high degree of interconnectedness between market participants, centralised market infrastructure and in some cases complex legacy

IT systems. CYBG Group cannot be certain that its infrastructure and controls will prove effective in all circumstances and any failure of the controls could result in significant financial losses and a material adverse effect on CYBG Group's operational performance and reputation.

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

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

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

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

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

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

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

on CYBG Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

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

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

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

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

CYBG Group has been and continues to be in discussion with various credit rating agencies about ratings for Clydesdale Bank and obtaining a rating, following the admission of the ordinary shares in the capital of the Issuer (the "**Ordinary Shares**") to the premium listing segment of the Official List and to trading on the London Stock Exchange plc's main market for listed securities (the "**Admission**"), for the Issuer, as a standalone bank holding company. Whilst Clydesdale Bank has previously been rated, such rating was premised on support from NAB. Consequently the ratings for the Issuer and Clydesdale Bank may be more likely to be reviewed or placed on negative watch than institutions with a longer track record as publicly listed financial institutions. Any downgrade in the credit rating of the Issuer or Clydesdale Bank or their securities, or the UK banking sector generally, or a downgrade in the sovereign rating of the UK could:

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

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

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

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

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

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

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

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

Since August 2012 the UK Government has provided significant support to UK financial institutions, including through liquidity schemes and credit guarantee schemes. FLS, which

became operational on 1 August 2012, was designed to reduce funding costs for participating institutions so that they could make loans to customers more readily available and at lower interest rates. The FLS scheme has been extended a number of times since its introduction with drawings with a maturity of up to four years currently permitted until 29 January 2016.

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

27. ***CYBG Group's risk management policies and procedures may not be effective in protecting it against all the risks faced by its business, and any failure to manage properly the risks that it faces could harm CYBG Group and its prospects.***

The management of credit, operational, regulatory, compliance, balance sheet and liquidity, market, foreign exchange, interest rate, pension, strategic, reputational and other risks requires, among other things, robust policies and procedures for the accurate identification and control of a large number of transactions and events. Such policies and procedures may not always prove to be adequate in practice against the wide range of risks that CYBG Group faces in its business activities, including, in particular:

- credit risk, being the potential that a customer or counterparty will fail to meet its obligations to CYBG Group in accordance with agreed terms, which arises from both CYBG Group's lending activities and markets and trading activities. See "*CYBG Group is subject to risks associated with customer and counterparty non-performance*" above;
- operational risk, being the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. See "*CYBG Group is exposed to risks associated with its IT systems*" below and "*CYBG Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events*" below;
- regulatory risk, consisting of regulatory strategy and change risk and regulatory relationship risk. See "*Regulatory Risks*" below;
- compliance risk, being the risk of failing to properly interpret and comply with relevant laws, rules, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks and incorporating financial crime risk, which includes risks relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes;
- balance sheet and liquidity risk, being the risk that CYBG Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. See "*CYBG Group's business is subject to risks relating to the cost and availability of liquidity and funding*" above;
- market risk, being the risk associated with adverse changes in the fair value of positions held by CYBG Group as a result of movement in market factors such as interest rates, foreign exchange rates, volatility and credit spreads;
- defined benefit pension risk, being the risk that, at any point in time, the available assets to meet pension liabilities are at a value below current or future scheme obligations. See "*Risks Relating to Pension Schemes*" below;

- strategic risk, being the risk of significant loss or damage arising from business decisions that impact the long-term interests of CYBG Group's stakeholders or from an inability to adapt to external developments; and
- other risks, including but not limited to funding and funding diversification risk, which is the risk of loss resulting from the inability to raise and maintain sufficient funding or the insufficient diversification of funding to spread risk, and model risk, which is the risk of loss resulting from inappropriate models and outputs that can lead to poor business decisions being taken.

CYBG 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 CYBG Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though CYBG Group constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, including in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on CYBG Group's business, financial condition, results of operations and prospects.

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

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

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

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

CYBG Group may look to implement new operational processes and systems to assist in responding to market developments, such as moves to mobile banking, or to reflect changes in

regulations, such as those that require faster electronic payment processing and cheque clearing times and shorter current account switching timelines. Due to the scale and complexity of such projects, CYBG Group may be required to invest significant management attention and resources, which may divert attention away from normal business activities and other ongoing projects. Additionally, where changes are undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of CYBG Group. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

While CYBG Group does have operational resilience, IT disaster recovery and business continuity contingency plans in place, these are not, and are not intended to be, a full duplication of CYBG Group's operational systems and premises. The occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems or premises could have a material adverse effect on CYBG Group's business. Any actual or perceived inadequacies, weaknesses or failures in CYBG Group systems or processes could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

The preparation of CYBG Group's financial statements requires management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with IFRS. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the level of impairment provisions for loans and advances, the level of provisions for PPI redress and other conduct related matters, retirement benefit obligations, deferred tax assets, and the fair value of financial instruments. For information on CYBG Group's critical accounting policies, see note 4 to the Historical Financial Information.

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

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

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

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

Insurance Intermediary business is currently not reflected in the Historical Financial Information.

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

CYBG Group's success depends on the continued service and performance of its key employees, particularly its executives and senior managers, and its ability to attract, retain and develop high-calibre talent. CYBG Group may not succeed in attracting new talent and retaining key personnel for a variety of reasons, including if they do not identify or engage with CYBG Group's brand and values, which represents a major component of CYBG Group's overall strategy, or they do not wish to be located or relocate to CYBG Group's key locations. CYBG Group competes for talented people with skills that are in relatively short supply and CYBG Group may not have sufficient scale to offer employees rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. CYBG Group may also allocate resources improperly within its newly developed standalone functions or otherwise which could create operational inefficiencies and risks and/or lead to de-motivated senior employees. Each of these factors could have an adverse effect on CYBG Group's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect CYBG Group's business. In addition, external factors such as macro-economic conditions, the regulatory environment developing to increase direct liabilities for bank employees, regulatory restrictions on incentivisation and/or continued negative media attention on the financial services industry may adversely affect employee retention, sentiment and engagement. Any failure to attract and retain key employees, including executives and senior managers, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

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

CYBG Group faces risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, any of which could result in increased charges, financial loss, including penalties, and reputational damage. Any misinterpretation of tax laws that creates the perception that CYBG Group is avoiding or evading tax, or if it is associated with customers that do so, could adversely affect its reputation. Future actions by the UK Government to adjust tax rates or to impose additional taxes (including particular taxes and levies targeted at the banking industry) could reduce CYBG Group's profitability. Revisions to tax legislation or to its interpretation might also affect CYBG Group's results of operations and financial condition in the future. In addition, the UK has a predominantly self assessment system for filing of tax returns. All tax returns have been filed by CYBG Group within statutory deadlines, but 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 CYBG Group's business, financial condition, results of operation and prospects.

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

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

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

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

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

RISKS RELATING TO CYBG GROUP'S RELATIONSHIP WITH NAB

NAB has undertaken the Demerger to separate CYBG Group's operations from the remaining NAB businesses, to form two separate corporate groups. For further details see "*Details of the Demerger and Company Capital Reduction—Details of the Demerger*".

Notwithstanding the completion of the Demerger, there are risks that might impact CYBG Group as long as NAB and CYBG Group have an ongoing contractual relationship, including through the transitional services agreement entered into by the Issuer and NAB on 29 January 2016 ("TSA") and arm's length arrangements for central clearing of derivative transactions, as described in "*CYBG Group could be negatively affected by actual or perceived deterioration in the soundness of other financial institutions and counterparties*" above. Highlighted below are certain of the key risks that apply to CYBG Group's relationship with NAB that, should they arise, may have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

Whilst Clydesdale Bank is largely standalone, CYBG Group will be reliant on NAB under the TSA for the provision of certain key services supporting elements of the risk, treasury, human resources and finance functional areas. These will require ongoing support from NAB to allow CYBG Group time to develop its own replacement systems and supporting processes. While a number of business functions and processes within these categories have been created and implemented for CYBG Group as part of its operational separation from NAB, these business functions and processes will continue to be dependent upon the various operational services

under the TSA. In addition, while data migration efforts will be prioritised to comply with regulatory requirements, access to other data, particularly historical data, will likely be required from NAB to support operations.

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

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

For more information on CYBG Group's transitional services arrangements with NAB and the terms of the TSA see "*Information on CYBG Group - Relationship with NAB*" and "*Material Contracts—Transitional Services Agreement*".

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

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

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

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

Each of the transitional services arrangements made between CYBG Group and NAB under the TSA will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone arrangement within a certain timeframe. For example, in relation to the credit risk engine it is proposed that CYBG Group will develop its own solution to support the calculation of credit risk-weighted assets ("RWAs") and related risk models within 24 months of

separation and it is expected to have full standalone arrangements for all of its functional areas in place in approximately 34 months from separation. Although this and other migrated services and processes will be subject to testing before implementation into the ordinary operational processes of CYBG Group, these new functions may not operate as intended, or may not be transferred within expected timeframes or may cost more than budgeted to develop. As a result, there is a risk that CYBG Group could suffer operational difficulties in the future which, either directly or as a result of the need for further investment in these new services and functions or a need to make additional payments or incur other costs under the TSA to NAB, could have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO PENSION SCHEMES

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

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

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

The most recent valuation of the DB Scheme as at 30 September 2013 indicated an actuarial funding deficit of £450 million and the deficit will be reassessed at the next valuation. CYBG Group agreed to make the following contributions to eliminate the deficit: £65 million on 1 October 2013; £150 million by 30 June 2014; £50 million on 1 October 2017; thereafter £50 million annually until 1 October 2021; and £55 million on 1 October 2022. Deficit reduction payments of £215 million have been made since the valuation date of 30 September 2013, and the next payment of £50 million is scheduled on 1 October 2017. The next regular valuation of the DB Scheme would take place with an effective date of 30 September 2016 but it is open to the trustees of the DB Scheme to call for valuations at an earlier date. The assumptions used for the statutory valuation would generally need to be agreed between CYBG Group and the trustees of the DB Scheme although the regulator established under Part 1 of the Pensions Act 2004 (as amended) in the UK (the "**Pensions Regulator**") has the power to set these in certain circumstances.

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

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

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

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

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

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

CYBG Group's DB Scheme had an accounting deficit of £301 million as at 30 September 2012, an accounting deficit of £197 million as at 30 September 2013, an accounting surplus of £49 million as at 30 September 2014 and an accounting surplus of £52 million as at 30 September 2015. As part of the ICAAP process, CYBG Group must allocate capital to cover the risk associated with its defined benefit pension scheme obligations under Pillar 2A. The pension scheme obligations include cash contributions. The cash contribution requirement is based on the actuarial assessment of the pension scheme obligations which differs from the accounting basis and may increase due to factors outside of CYBG Group's control. See "*CYBG Group may be required to increase its contributions to the DB Scheme to fund deficits*" above for further information. CYBG Group may need to hold additional regulatory capital to cover an increase in net pension scheme obligations, and such additional capital requirement could be material.

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

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

REGULATORY RISKS

CYBG Group's business is subject to ongoing regulation and associated regulatory risks, including the effects of new and changing laws, rules, regulations, policies, voluntary codes of practice and interpretations of such in the UK and the European Union. These laws, rules, and regulations include: (i) prudential regulatory developments; (ii) increased regulatory oversight in respect of conduct issues; and (iii) industry-wide initiatives. Each of these has costs associated with it, may significantly affect the way that CYBG Group does business and may restrict the scope of its existing businesses, limit its ability to expand its product offerings or make its products and services more expensive for clients and customers. Developments across any of these three regulatory areas, discussed in greater detail below, could materially adversely affect CYBG Group's access to liquidity, increase its funding costs, increase its compliance cost, delay, limit or restrict its strategic development and have a material adverse effect on CYBG Group's business, financial condition, results of operations and prospects.

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

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

CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks and bank holding companies with effect from 1 January 2014, including: increased minimum levels of capital and additional minimum capital buffers; enhanced quality standards for qualifying capital; increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and the introduction of a minimum leverage ratio (being the capital measure (the numerator) divided by the exposure measure (the denominator) calculated in accordance with relevant EU legislation) ("**Leverage Ratio**"). CRD IV provides for some of these measures to be phased in over a transitional period to 2018.

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

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

Recovery and Resolution Directive

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

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

The powers referred to in the BRRD include certain powers which overlapped in part with those that were already available in the UK under the Banking Act 2009 (the "**Banking Act**"). The BRRD provides, among other things, for resolution authorities to have stabilisation powers to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary or to require institutions to limit or cease existing or proposed activities in certain circumstances. In addition, it provides for preferential ranking on insolvency for certain deposits that are eligible for protection by deposit guarantee schemes (including the uninsured element of such deposits and, in certain circumstances, deposits made in non-EEA branches of EEA credit institutions) in priority to deposits that are not similarly eligible, and introduces a bank funded resolution fund. It also provides write-down or conversion powers to resolution authorities for such authorities to ensure that relevant capital instruments absorb losses upon, amongst other events, the occurrence of the non-viability of the relevant institution or its parent company, as well as a bail-in tool comprising a more general power for resolution authorities to write down (including to zero) the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. If CYBG Group becomes subject to such bail-in or resolution powers, Noteholders may lose some or all of the value of their investment in the Notes and may not receive any compensation for their losses. Moreover, in this regard, Additional Tier 1 instruments (such as the Notes), are second in rank in the sequence of securities subject to write down or conversion, after common equity tier 1 ("**CET1**"). As such, this may exacerbate any risk of the Noteholders' holdings becoming subject to write down or conversion action. In addition, in a resolution situation, financial public support will only be available to CYBG Group as a last resort after the resolution authorities have assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.

See "*Regulatory action in the event that a bank in the CYBG Group is failing or likely to fail could materially adversely affect the value of the Notes*" below for further information.

Minimum requirement for own funds and eligible liabilities

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

Operational risk capital

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

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

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

Credit risk and risk-weighting of assets

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

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

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

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

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

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

Interest rate risk in the banking book

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

Firms' assessment of Pillar 2 risks

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

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

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

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

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

Mortgage Market Review

The FCA introduced new rules following the publication of its MMR, which require, among other things, an assessment of customer affordability in connection with mortgage lending. The MMR permits interest-only loans solely where there is a clearly understood and credible strategy for repaying the principal of the relevant loan (evidence of which the lender must obtain before making the loan and must check at least once during the term of the loan) and the cost of the repayment strategy must be included in the affordability assessment. CYBG Group has created a

dedicated team to support customers holding CYBG Group interest-only mortgages with any issues that may arise. CYBG Group expects to incur costs related to its compliance efforts and if the measures are not deemed to be sufficient by the FCA, CYBG Group may face penalties or other sanctions associated with such non-compliance, including as a result of any potential retrospective review.

Mortgage loan-to-income ratio

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

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

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

Mortgage Credit Directive

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

The MCD contains an exemption permitting the non-application of the MCD's requirements to buy-to-let mortgages by Member States provided that such Member States have in place an appropriate framework for buy-to-let mortgage activity from 21 March 2016. The UK Government has chosen to rely on this exemption. HM Treasury has amended the definition of

regulated activities under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, so that second charge mortgages which are currently regulated under the UK consumer credit regime will move into the regulatory regime for residential mortgages from March 2016. The final rules in respect of second charge mortgages have been published in the Mortgage Credit Directive Instrument 2015 (FCA 2015/18) ("**MCDI**"). MCDI will make certain changes to the Mortgage and Home Finance Firms, and Insurance Intermediaries sourcebook and the Mortgages and Home Finance Conduct of Business sourcebook ("**MCOB**"); ensure that most MCOB requirements apply to second charge mortgages; and apply the MCD's requirements to second charge mortgages in full. Parts of the MCDI will apply from 21 September 2015 and 21 December 2015 respectively, whilst it will come into force on 21 March 2016.

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

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

Retail and wholesale banking reviews

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

In addition, following the publication of market studies conducted by the CMA which identified aspects of the retail banking market (including evidence of a lack of transparency) which, the CMA concluded, could prevent, restrict or distort competition in the UK, on 6 November 2014, the CMA announced that it had decided to commence an in-depth investigation into the supply of PCAs and other banking services to SMEs in the UK. The CMA published their updated issues statement on 21 May 2015, which highlighted three areas of harm that are expected to be at the focus of the investigation: (i) the extent to which consumers switch between providers; (ii) the level of concentration in the market; and (iii) barriers to entry and expansion. On 22 October 2015, the CMA published its provisional findings and list of proposed remedies identifying competition issues in both the PCA and SME banking markets. The CMA stated that low levels of customer engagement (which includes customers' understanding of the products they hold, engagement in the market by searching and comparing offers and switching providers) decrease banks' incentives to compete for customers through better products, lower prices or innovation. According to their market investigation, the lack of customer engagement is caused primarily by customers' difficulties in obtaining comparative data on the prices and services offered by different banks, and the perception by customers that the switching process is time-consuming or risky, particularly in the PCA market. To address concerns such as these, the CMA has proposed a requirement for banks to prompt retail and SME customers to review their banking services. For example, banks could be forced to send messages to their customers at specific 'trigger

points', such as unarranged charges or changes in terms and conditions. The CMA could also require banks to increase their funding for an advertising campaign promoting CASS, to help raise public confidence in switching bank accounts. There remains significant uncertainty over how the CMA will implement its proposals. Any proposal may not impact all banks equally, for example, it may define markets within the UK in a manner that is disproportionately adverse to CYBG Group. Increased costs and/or a significant loss of customers as a result of any such changes could have a material adverse affect on CYBG Group's business, financial condition, results of operations and prospects. Responses to the CMA's proposals were requested by 20 November 2015, and certain such responses have been published by the CMA.

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

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

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

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

Consumer credit regime

CYBG Group is subject to the consumer credit regime under the Financial Services and Markets Act 2000, as amended ("**FSMA**"), which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. Certain secondary legislation, made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and is anticipated to take a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that will need to comply with the FCA

requirements applicable to the provision of consumer credit, CYBG Group may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for non-compliance. In addition, the courts have wide powers to look again at a credit agreement, when the borrower alleges an aspect of it was "unfair", and render such arrangement unenforceable. As at 30 September 2015, CYBG Group's conduct costs relating to CCA were below the minimum threshold for cover under the Capped Indemnity.

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

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

Unfair terms in consumer contracts

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

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

Unfair Terms in Consumer Contracts Regulations and the Consumer Rights Act

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

Banking Standards Review Council

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

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

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

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

Banking Lending Practices Review

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

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

Senior Managers Regime, Certification Regime and Conduct Rules

On 7 July 2015, the FCA and PRA published the final rules confirming their approach to the new individual accountability regime under the Banking Reform Act, which replaces the existing approved person's regime. The final rules cover three areas: the senior managers regime rules of

individual accountability of the FCA and PRA under the Banking Reform Act (the "**Senior Managers Regime**"), the certification regime forming part of the accountability framework introduced by the Banking Reform Act (the "**Certification Regime**") and the conduct rules (the "**Conduct Rules**"). The new Senior Managers Regime applies to individuals who hold key roles and responsibilities within firms, including executive management, directors and non-executive directors (other than standard non-executive directors who do not act as chairman, senior independent director or chair any committee). The Senior Managers Regime requires such individuals to be pre-approved by regulators, and firms will be required to maintain procedures for the assessment of the fitness and propriety of such individuals before applying for approval and at least annually thereafter.

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

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

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

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

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

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

Banking Reform Act

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

The Banking Reform Act introduces a number of measures which could adversely impact CYBG Group's business, including: (i) a new bail-in option through an amendment to the Banking Act

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

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

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

MiFID II

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

requirements) and introduces new investor protection measures including product governance requirements.

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

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

Payment Services

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

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

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

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

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

numbers are not expected, until the relevant provisions and interchange rates are in full force, the full impact of the measures on CYBG Group cannot be fully determined.

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

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

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

EMIR

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

Small and Medium Sized Business (Finance Platforms) Regulations

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

IMD2

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

jurisdictions as the UK intermediary regime already incorporates a number of the requirements proposed by IMD2.

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

Financial services compensation scheme and depositor guarantee scheme

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

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

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

requirements apply to firms as of 1 January 2016, and the rules on SCV and Continuity of Access will take effect from 1 December 2016.

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

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

Incremental tax reporting

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

Immigration Bill

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

New FCA and PRA Remuneration Rules

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

Electronic Signatures Regulation

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

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

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

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

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

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

CYBG Group, in common with much of the UK and European financial services industry, continues to be the focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations, enhanced regulatory

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

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

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

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

New Payment Systems Regulator

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

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

- (a) the implications for competition arising from the structure of the market (including the characteristics of indirect access); and
- (b) the initial and ongoing elements involved in providing indirect access, as well as risks associated with providing services across different types of indirect PSPs.

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

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

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

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

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

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

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

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

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

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

CYBG Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit CYBG Group, its employees or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In

recent years, enforcement of these laws and regulations against financial institutions has increased, resulting in several landmark fines against UK financial institutions. In addition, CYBG Group cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although CYBG 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 CYBG Group's employees, for which CYBG Group might be held responsible. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on CYBG Group's business, financial condition and results of operations.

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

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

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

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

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

In addition to the bail-in tool, amendments introduced to the Banking Act in order to implement the BRRD give the Bank of England a separate power to write down or convert capital

instruments of a bank in certain circumstances. This may include circumstances where the relevant credit institution is failing or likely to fail to meet its threshold conditions, in which case this power may be used alongside the stabilisation options; however it can also be used before the relevant credit institution reaches a point where the stabilisation options become available to the Authorities. This allows the Bank of England to cancel, transfer or dilute equity instruments and convert or reduce the amount of subordinated debt instruments (such as the Notes).

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

Use of bail-in powers and/or powers to write down or convert capital instruments by the Authorities may materially adversely affect the rights of the Noteholders, the price or value of their investments in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. See "*Regulatory action in the event that a bank in the CYBG Group is failing or likely to fail could materially adversely affect the value of the Notes*" below for further information.

RISKS RELATING TO THE NOTES

51. *The Notes are subordinated to most of the Issuer's liabilities and the rights of the holders of Conversion Shares.*

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

In the event of a Winding-Up (i) prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in Condition 5(a) (Winding-Up prior to a Trigger Event), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of Notional Preference Shares ranking *pari passu* as to a return of assets on a winding-up with Parity Obligations and that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding-Up was an amount equal to the principal amount of the relevant Note and any Accrued Interest (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations or (ii) concurrently with or after the occurrence of a Trigger Event, and where an Automatic Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment or any issue or delivery of Conversion Shares by the Issuer), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of such number of Conversion Shares as that Noteholder would have been entitled to receive upon an Automatic Conversion. Therefore, if, on a Winding-Up, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Noteholders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable the Issuer to pay claims arising under its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes (which, in the event of a Winding-Up occurring in the intervening period between a Trigger Event and the Conversion Date, will be claims that rank *pari passu* with ordinary shares of the Issuer), the Noteholders will lose some (which may be substantially all) of their investment in the Notes.

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

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

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

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

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

Further, if one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the Noteholders would have no right to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the winding-up, liquidation or dissolution of that subsidiary in respect of its direct or indirect holding of ordinary shares in such subsidiary, if and to the extent that any surplus assets remain following payment in full of the claims of the creditors (which would include the Issuer, for example, in the case of the Clydesdale Bank intra-group debt instruments mentioned

above if they had not been converted or cancelled) and preference shareholders (if any) of that subsidiary.

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

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

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

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

Furthermore, the Issuer will be required to cancel any Interest Amount (in whole or in part) otherwise scheduled to be paid on an Interest Payment Date to the extent that payment of such Interest Amount would: (i) when aggregated with other specified interest payments or distributions, exceed the Distributable Items of the Issuer as at such Interest Payment Date or (ii) result in the Solvency Condition not being satisfied with respect to payment of such Interest Amount (or part thereof) set out in the relevant Conditions.

In addition to the circumstances described above, Noteholders should be aware that if the combined buffer capital requirements applicable to the Issuer and each entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Regulatory Capital Requirements), of which the Issuer is part from time to time (the "**Group**"), were to be breached, the Issuer may be required to exercise its discretion to cancel (in whole or in part) interest payments in respect of the Notes.

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

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

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

If the Issuer elects to cancel, or is prohibited from paying, Interest Amount (or part thereof) at any time, there is no restriction (other than any relevant restriction imposed by any applicable law or regulation) on the Issuer from otherwise making distributions or any other payments to the holders of the ordinary shares of the Issuer or any other securities issued by any member of the CYBG Group, including securities ranking pari passu with or junior to the Notes. In determining the interim or final distributions (if any) to be declared in respect of the ordinary shares in respect of any given financial year, the board of directors of the Issuer (the "**Board**") will have regard to

all relevant factors which it considers to be appropriate, including the profitability of the Issuer, its resources available for distribution and the capital and liquidity position of the Issuer at the time of declaring the distribution. The obligations of the Issuer under the Notes are senior in ranking to the ordinary shares of the Issuer. It is the Board's current intention that, whenever exercising its discretion to declare any distribution in respect of the ordinary shares, or its discretion to cancel interest on the Notes, the Board will take into account the relative ranking of these instruments in its capital structure. However, the Board may at any time depart from this policy at its sole discretion.

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

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

The Issuer will be required to cancel any Interest Amount (or part thereof) otherwise scheduled to be paid on an Interest Payment Date to the extent that payment of such Interest Amount would, when aggregated with other specified interest payments or distributions, exceed the Distributable Items of the Issuer as at such Interest Payment Date. In addition, if the Issuer's ability to receive distributions from its subsidiaries is restricted and alternative funding sources are not available, the Issuer may exercise its discretion to cancel any Interest Amount otherwise scheduled to be paid on any Interest Payment Date. See further "*Details of the Demerger and Company Capital Reduction—Details of the Issuer Capital Reduction*" for information regarding distributable reserves of the Issuer.

As a holding company, the level of the Issuer's Distributable Items will be affected by a number of factors, principally its ability to receive funds, directly or indirectly, from its operating subsidiaries in a manner which creates Distributable Items for the Issuer. The Issuer is also reliant on the receipt of distributions from its subsidiaries for funding the Issuer's payment obligations. Consequently, the level of the Issuer's Distributable Items and available funding, and therefore its ability to make interest payments on the Notes, are a function of the Issuer's existing Distributable Items, future profitability of the CYBG Group and the ability of the Issuer's operating subsidiaries to distribute or dividend profits up the CYBG Group structure to the Issuer. In addition, the Issuer's Distributable Items available for making payments to Noteholders may also be adversely affected by the servicing of other instruments issued by the Issuer or by CYBG Group subsidiaries.

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

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

In addition, the ability of the Issuer's subsidiaries to make distributions and the Issuer's ability to receive distributions and other payments from its investments in other entities is subject to applicable laws and other restrictions, including such subsidiaries' respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws. For example, Clydesdale Bank is an institution regulated by the PRA and subject to the CRD IV regime, including capital and combined buffer requirements such as those

described for the Group (see "*CRD IV imposes capital requirements that will restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*"). Similarly, the implementation of MREL under BRRD (each as defined in "*Regulatory Risks—CYBG Group is subject to substantial and changing prudential regulation*"), may increase these requirements. Such laws and regulations could limit the payment of dividends, distributions and other payments to the Issuer by its subsidiaries, which could restrict the Issuer's available funding for meeting its obligations or funding other operations and may also restrict the Issuer's ability to maintain or increase its Distributable Items. These factors could, in turn, restrict the Issuer's ability to make interest payments on the Notes.

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

The CRD IV Directive requires member states of the EU to impose capital buffer requirements that are additional to the Pillar 1 "own funds" requirement and are required to be met with common equity tier 1 capital. The capital buffers, as currently implemented in the UK, are: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the global systemically important institutions buffer and (iv) the systemic risk buffer. Subject to a transitional period, the capital conservation buffer applies to the Group from 1 January 2016 and some or all of the other buffers may be applicable to the Group from time to time as determined by a designated authority in the UK.

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

There can be no assurance as to the manner in which the Group's Pillar 2A capital requirements may be disclosed publicly in the future. Currently, in light of guidance issued by the PRA in Policy Statement PS17/15 (*Assessing capital adequacy under Pillar 2*), the Issuer does not disclose the Pillar 2A capital requirements applicable to the Group, although such disclosure may be made if it were required by law or applicable market disclosure obligations. If such disclosure were to be made in the future, there can be no assurances as to the consequences of such disclosure, including the impact upon the market value of an investment in the Notes.

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

The "combined buffer requirement", and the associated restrictions under Article 141 (Restrictions on distributions) of the CRD IV Directive, as implemented in the UK (the "**Article 141 Restrictions**"), have applied since 1 January 2016 and will be transitioned in at a rate of 25 per cent. per annum. In the event of a breach of the "combined buffer requirement", the Article 141 Restrictions will be scaled according to the extent of the breach of the "combined buffer

requirement" and calculated as a percentage of the profits of the institution since the last decision on the distribution of profits or "discretionary payment" of the institution. Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (as applicable at the level of the Group) the Issuer's discretionary payments will be restricted and the Issuer may exercise its discretion to cancel (in whole or in part) interest payments in respect of the Notes.

In addition to the Pillar 1 "own funds" requirement, the CRD IV buffers and the "Pillar 2A" requirement described above, there are additional tools that the PRA and other relevant authorities in the UK have, or are expected to have, available to them to require UK firms to hold additional capital to address micro-prudential or macro-prudential risks as assessed by the relevant authorities in the UK. These include: the "PRA buffer", as described below, which may be assessed by the PRA to cover risks over a forward-looking planning horizon, including with regard to firm-specific stresses or management and governance weaknesses; and "sectoral capital requirements", which is a macro-prudential tool available to the FPC of the Bank of England in the UK as a means for the FPC temporarily to increase firms' capital requirements on exposures to specific sectors. Some of these and other measures remain subject to on-going review and there remains, therefore, some degree of uncertainty as to how the additional capital requirements could be applied, including with respect to their interaction with the "combined buffer requirement" and the Article 141 Restrictions.

The PRA implementation of Article 141 (Restrictions on distributions) of the Directive that is part of CRD IV was published on 30 April 2014 in the Policy Statement PS3/14 (Implementing CRD IV: Capital buffers) and is now included in the PRA Rulebook (Chapter entitled "Capital Buffers"). However, the interaction of such restriction with the capital requirements, buffers and macro-prudential tools referred to above, remains uncertain in some respects. Such uncertainty is expected to subsist until the final implementation and application of the relevant rules. In this regard, the PRA published on 29 July 2015 a Policy Statement PS17/15 (Assessing capital adequacy under Pillar 2) together with related rules, supervisory statements and a statement of policy, which include:

- (a) a Supervisory Statement 31/15 (The Internal Capital Adequacy Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)), which sets out, among other things, (i) the expectations the PRA has in relation to the ICAAP and the requirements set out in the Internal Capital Adequacy Assessment part of the PRA Rulebook and (ii) guidelines on the supervisory review and evaluation process; and
- (b) a Statement of Policy (The PRA's methodologies for setting Pillar 2 capital), which (i) sets out the methodologies the PRA will use to inform the setting of Pillar 2 capital and (ii) introduces, from 1 January 2016, a new "PRA buffer" (replacing the capital planning buffer), which, if imposed, will be in addition to the CRD IV combined buffer requirement, and which by 1 January 2019 must be met with 100 per cent. common equity tier 1 capital. Failure to meet the PRA buffer, if one were imposed, could result in the PRA requiring the Issuer to prepare a capital restoration plan. Such capital restoration plan may impose restrictions on discretionary payments, which may result in the exercise of the Issuer's discretion to cancel (in whole or in part) interest payments in respect of the Notes.

Pillar 2 is an important part of ensuring firms hold adequate capital to support the relevant risks in their business. It is also intended to encourage firms to develop and use enhanced risk management techniques in monitoring and managing their risks. There are two main areas that the PRA considers when conducting a Pillar 2 review: (i) risks to the firm which are either not captured, or not fully captured, under the capital requirements, referred to as Pillar 2A; and (ii) risks to which the firm may become exposed over a forward-looking planning horizon (e.g. due to changes in the economic environment), referred to as Pillar 2B.

Separately, certain regulatory proposals currently in development may restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. For example, as described in *"CYBG Group is subject*

to substantial and changing prudential regulation—Minimum requirement for own funds and eligible liabilities" above, the Bank of England may exercise its power of direction under section 3A(4) of the Banking Act to direct institutions to maintain an MREL requirement. The Bank of England could set the MREL requirement applicable to the Group so that any capital buffer requirements are effectively applied not only above the Pillar 1 "own funds" and "Pillar 2A" requirements but also above the MREL requirements.

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

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

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

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

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

The Notes bear interest at the Initial Interest Rate from (and including) the Issue Date to (but excluding) the First Reset Date. On each Reset Date, the interest rate will be reset to the sum of the 5-year Mid-Swap Rate (as determined by the Agent Bank on the relevant Reset Determination Date) and the margin of 6.25 per cent. The relevant Reset Interest Rate could be less than the Initial Interest Rate which could affect the market value of an investment in the Notes.

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

The Notes are perpetual securities and have no fixed maturity date or fixed redemption date. Accordingly, the Issuer is under no obligation to repay all or any part of the principal amount of

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

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

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

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

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

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

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

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

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

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

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

Upon the occurrence of a Trigger Event, an Automatic Conversion will occur on the Conversion Date, at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary to be held on behalf of the Holders (or to the relevant recipient in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As discussed in "*The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Group.*" above, the Group's Common Equity Tier 1 Capital Ratio and, more generally, its overall respective capital position could be affected by a number of factors, including the CYBG Group's decisions relating to its businesses and operations, as well as the management of its capital position. Neither the Issuer nor any member of the CYBG Group will have any obligation to consider the interests of the Noteholders in connection with its strategic decisions, including in respect of its capital management. Noteholders will not have any claim against the Issuer or any other member of the CYBG Group relating to decisions that affect the business and operations of the CYBG Group, including the CYBG Group's capital position, regardless of whether they result in the occurrence of a Trigger Event or a cancellation of interest payments in respect of the Notes. Such decisions could cause the Noteholders to lose all or part of the value of their investment in the Notes.

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

As discussed in "*Regulatory Risks—CYBG Group is subject to substantial and changing prudential regulation*" above, CRD IV introduced significant changes in the prudential regulatory regime applicable to banks. CRD IV permits a transitional period for certain of the enhanced capital requirements. However, in the UK, the PRA accelerated the introduction of certain of the enhanced capital requirements under CRD IV and, consistent with that, for the purposes of the Notes, the Issuer will determine the Group's Common Equity Tier 1 Capital and Risk Weighted Assets without applying the CRD IV transitional provisions and will instead determine the Group's Common Equity Tier 1 Capital Ratio on a so-called "fully loaded" basis (i.e. applying all of CRD IV in the form that the CYBG Group currently expects to apply). The

CYBG Group's Common Equity Tier 1 Capital Ratio as at 30 September 2015 was 13.2 per cent. The CYBG Group's interpretation of CRD IV and the basis of its calculation of the Group's Common Equity Tier 1 Capital Ratio may be different from those of other financial institutions. For more information on the CYBG Group's capital position see note 40 to the Historical Financial Information and the section entitled "*Selected Financial and Other Information—Key Performance Indicators*". For the purposes of the Notes, the calculation by the Group's Common Equity Tier 1 Capital Ratio (based on its interpretation of the Regulatory Capital Requirements) at any time is binding on the Trustee and the Noteholders.

CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the EBA or changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III). For example, such further changes may arise from revisions to applicable regulations resulting from the Basel Committee's fundamental review of the trading book and/or its review of interest rate risk in the banking book. In addition, the Basel Committee has proposed revisions to the standardised approach to credit risk, including the proposal to impose a standardised floor on modelled credit risk capital requirements. Any such proposals and resulting changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the CYBG Group's CRD IV capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following an Automatic Conversion, the Notes will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Conversion

Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary. All obligations of the Issuer under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient in accordance with the terms of the Notes) on the Conversion Date, and under no circumstances shall such released obligations be reinstated. The Notes shall be cancelled on the applicable Cancellation Date.

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

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

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

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

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

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

a result of such holder failing to duly submit a Conversion Shares Settlement Notice and the relevant Notes, if applicable, on a timely basis or at all.

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

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

73. ***If a Takeover Event occurs, the Notes may be convertible into shares in an entity other than the Issuer or may be fully written down.***

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

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

If a Takeover Event is not a Qualifying Takeover Event (because the Acquirer is not an Approved Entity or the New Conversion Condition is not satisfied), with effect from the occurrence of the Takeover Event (unless a Conversion Date shall have occurred prior to the date of such Takeover Event), the Notes shall not be subject to Automatic Conversion at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) (or where the Conversion Date occurs on or after the date of such Takeover Event) the outstanding principal amount of each Note will automatically be written down to zero, each Note will be cancelled, all Accrued Interest and any other amounts payable on each Note will be cancelled (irrespective of whether such amounts have become due and payable prior to the occurrence of the Trigger Event). There can be no assurance that a Takeover Event will be a Qualifying Takeover Event, therefore, if it is not a Qualifying Takeover Event, Noteholders may lose their investment in the Notes.

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

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

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

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

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

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

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

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

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

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

As described further under "*Regulatory Risks—CYBG Group is subject to substantial and changing prudential regulation—Recovery and Resolution Directive*", the BRRD (including the bail-in tool), together with the majority of associated FCA and PRA rules, was implemented in the UK in January 2015.

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

Under the Banking Act, substantial powers have been granted to the Authorities as part of the SRR, as discussed above in *"Regulatory Risks—As a result of any of the foregoing risks, CYBG Group may be subject to the provisions of the Banking Act in the future."*

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

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

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

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

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

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

consultation and exchange of information between supervisors and resolution authorities in such scenarios.

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

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

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

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

The relevant Authority may exercise the bail-in tool to enable it to recapitalise an institution in resolution by allocating losses to its shareholders and unsecured creditors (which includes the Noteholders) in a manner that (i) reflects the hierarchy of capital instruments under CRD IV and otherwise ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the 'no creditor worse off' safeguard). Certain liabilities are excluded from the scope of the bail-in tool, such as liabilities to the extent they are secured. The Banking Act also grants the powers for the relevant Authority to exclude any liability or class of liabilities on certain prescribed grounds (including financial stability grounds) and subject to specified conditions.

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

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

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

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

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

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

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

78. ***Credit Rating.***

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

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

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

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

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

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

In addition, any change in law or regulation that triggers a Regulatory Event or a Tax Event would entitle the Issuer, at its option (subject to prior permission of the Competent Authority and

to compliance with prevailing prudential requirements), to redeem the Notes, in whole but not in part, as provided under "*Terms and Conditions of the Notes—Redemption and Purchase*".

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

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

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

The Notes are new securities and upon issuance will be held by NAB as initial subscriber. To the extent NAB elects to trade the Notes after their initial issuance they may not be widely distributed and no active trading market may develop. If a market does develop, it may not be liquid or may become illiquid at a later stage. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

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

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

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

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

83. ***Minimum Denomination.***

As the Notes have a denomination consisting of the minimum denomination plus an integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £200,000 (or its equivalent) that are not integral multiples of £200,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Certificate in

respect of such holding (should Individual Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination. Further, a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at, or in excess of, the minimum denomination such that its holding amounts to the minimum denomination.

84. ***Certain payments on Notes may be subject to U.S. withholding tax under FATCA.***

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

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

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

86. ***The Trust Deed contains provisions which may permit modification of the Notes without the consent of all Holders.***

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

87. ***The Notes are not 'protected liabilities' for the purposes of any UK Government compensation scheme.***

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

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

TERMS AND CONDITIONS OF THE NOTES

The following (excluding italicised paragraphs) is the text of the terms and conditions of the Notes substantially as they will appear in the trust deed constituting the Notes.

The £450,000,000 8 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further Notes issued pursuant to Condition 18 which are consolidated and form a single series with the Notes) of CYBG PLC (the "**Issuer**") are constituted by a trust deed dated 8 February 2016 (as amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons from time to time being trustee or trustees appointed under the Trust Deed) as trustee for the Noteholders.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 8 February 2016 (as amended and/or restated and/or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, the Registrar and the other Agents and the Trustee are available for inspection during normal business hours by prior arrangement by the Noteholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1. **FORM, DENOMINATION AND TITLE**

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

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

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

2. **TRANSFER OF NOTES**

(a) *Transfer of Notes*

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

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

(b) *Delivery of New Certificates*

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

(c) *Transfers Free of Charge*

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

(d) *Closed Periods*

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

3. **STATUS**

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

4. **SUBORDINATION**

(a) *Solvency Condition*

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

In these Conditions, the Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Issuer's Assets exceed its Liabilities.

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

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

(b) *No set-off*

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

(c) *Effect on the Trustee*

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

5. **WINDING-UP**

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

If:

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

(each, a "**Winding-Up**") prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in this Condition 5(a)), such amount, if any, as would have been payable to the Noteholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Noteholder were the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") ranking *pari passu* as to a return of assets on a winding-up with Parity Obligations and that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer,

but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Noteholder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding-Up was an amount equal to the principal amount of the relevant Note and any accrued but unpaid interest thereon (to the extent not cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations.

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

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

6. **INTEREST**

(a) *Cancellation of interest*

Mandatory cancellation of interest- insufficient Distributable Items

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

Mandatory cancellation of interest – Solvency Condition

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

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

Discretionary cancellation of interest

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

Non-payment of interest sufficient evidence of cancellation

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

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

Notice of cancellation of interest

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

Interest non-cumulative

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

(b) *Interest Rate and Interest Payment Dates*

The Notes bear interest on their outstanding principal amount:

- (i) from and including the Issue Date to but excluding 8 December 2022 (the "**First Reset Date**"), at the rate of 8 per cent. per annum (the "**Initial Interest Rate**"); and
- (ii) thereafter, at the relevant Reset Interest Rate,

which interest is, in each case, payable, subject to Conditions 4(a), 6(a), 7 and 9, semi-annually in arrear on 8 June and 8 December of each year (each an "**Interest Payment Date**"), except that the first date on which interest may be paid will be on 8 June 2016 (also, an "**Interest Payment Date**") in respect of the period beginning on (and including) the Issue Date and ending on (but excluding) 8 June 2016. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

(c) *Calculation of interest*

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

Subject to Conditions 4(a), 6(a) and 9, the Interest Amount payable in respect of the first Interest Period will (if paid in full) amount to £26.30 per Calculation Amount and the Interest Amount payable in respect of any other Interest Period commencing prior to the First Reset Date will (if paid in full) amount to £40.00 per Calculation Amount.

(d) *Reset Interest Rate*

(i) The "**Reset Interest Rate**" in respect of any Reset Period will be the sum of the 5-year Mid-Swap Rate in relation to that Reset Period and the Margin, all as determined by the Agent Bank at approximately 11:00 a.m. (London time) on the Reset Determination Date (rounded to three decimal places with 0.0005 rounded down).

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

"5-year Mid-Swap Rate" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period:

- (A) the semi-annual mid-swap rate with a term of five years which appears on the Screen Page as at 11:00 a.m. (London time) on such Reset Determination Date; or
- (B) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate on such Reset Determination Date;

"5-year Mid-Swap Rate Quotations" means the arithmetic mean of the bid and ask rates for the semi-annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed-for-floating Sterling interest rate swap which:

- (A) has a term of five years commencing on the relevant Reset Date;
- (B) is in an amount that is representative of a single transaction in the relevant market at the relevant time (a "**Representative Amount**") with an acknowledged dealer of good credit in the swap market; and
- (C) has a floating leg (calculated on an Actual/365 (Fixed) day count basis) based on the rates at which deposits in sterling are offered by the Reset Reference Banks to prime banks in the London interbank market for a six month period commencing on the relevant Reset Date in a Representative Amount;

"Calculation Period" means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period;

"Day-Count Fraction" means, in respect of any Calculation Period, the number of days in the Calculation Period, divided by the product of (1) the number of days in the Regular Period in which the Calculation Period falls and (2) two;

"Margin" means 6.25 per cent. per annum;

"Regular Date" means 8 June or 8 December in any year;

"Regular Period" means each period from (and including) any Regular Date to (but excluding) the next Regular Date;

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

"Reset Reference Bank Rate" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Agent Bank at approximately 11.00 a.m. (London time) on such Reset Determination Date. The Agent Bank will request the principal London office of each of the Reset Reference Banks to provide a

quotation of its rate. If at least three quotations are provided, the Reset Reference Bank Rate will be the 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 quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, an amount equal to the Initial Interest Rate less the Margin;

"Reset Reference Banks" means five leading swap dealers in the London interbank market selected by the Issuer (excluding the Agent Bank or any of its affiliates) in its discretion; and

"Screen Page" means Reuters page "ISDAFIX4" or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate.

(e) *Publication of Reset Interest Rate*

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

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

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

(g) *Interest accrual*

Without prejudice to Conditions 4(a), 6 and 9, each Note will cease to bear interest from and including its date fixed for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue in accordance with, and subject to, the Conditions (both before and after judgment) until whichever is the earlier of (a) the day on which such principal is received by or on behalf of the relevant Noteholder and (b) the day which is seven days after any of the Agents or the Trustee has notified the Noteholders that it has received such principal.

7. PAYMENTS

(a) *Principal*

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

(b) *Interest*

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

(c) *Payments subject to fiscal laws*

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

(d) *Payment on Business Days*

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

(e) *Partial payments*

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

(f) *Record date*

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the

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

(g) *Agents*

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

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

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

8. **REDEMPTION AND PURCHASE**

(a) *No fixed redemption date*

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

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

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

(c) *Redemption for regulatory reasons*

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

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

(d) *Redemption for tax reasons*

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

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

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

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

(e) *Purchases*

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

(f) *Conditions to redemption*

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

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

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

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

(g) *Cancellation*

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

(h) *Notices final*

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

(i) *Trustee not obliged to monitor*

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

9. **AUTOMATIC CONVERSION**

(a) *Automatic Conversion on a Trigger Event*

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

The Issuer shall immediately notify the Competent Authority of the occurrence of the Trigger Event and the Automatic Conversion shall occur without delay upon the occurrence of a Trigger Event and by no later than one month following such Trigger Event (or such shorter period as the Competent Authority may then require).

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

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

of the occurrence of such event, in which event such certificate shall be conclusive and binding on the Trustee and the Holders.

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

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

(b) *Consequences of Automatic Conversion*

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

(c) *Conversion Shares*

- (i) The Conversion Shares shall initially be registered in the name of the Conversion Shares Depositary (which shall hold the Conversion Shares on behalf of the Holders) or the relevant recipient as contemplated above, and each Holder shall be deemed to have irrevocably directed the Issuer to issue the Conversion Shares corresponding to the conversion of its holding of Notes to the Conversion Shares Depositary (or to such other relevant recipient).
- (ii) The number of Conversion Shares to be issued to the Conversion Shares Depositary on the Conversion Date shall be determined by dividing the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date by the Conversion Price prevailing on the Conversion Date rounded down, if necessary, to the nearest whole number of Conversion Shares. Fractions of Conversion Shares will not be

issued following an Automatic Conversion and no cash payment will be made in lieu thereof.

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

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

(d) *Conversion Share Offer*

- (i) No later than 10 Business Days following the Conversion Date, the Issuer may, in its sole and absolute discretion, elect that the Conversion Shares Depositary make an offer of all or some of the Conversion Shares to all or some of the Issuer's ordinary shareholders at such time at a cash price per Conversion Share equal to the Conversion Price, subject as provided below (the "**Conversion Shares Offer**"). The Issuer may, on behalf of the Conversion Shares Depositary, appoint a Conversion Shares Offer Agent to act as placement or other agent to facilitate the Conversion Shares Offer.
- (ii) The Issuer will deliver a Conversion Shares Offer Notice to the Trustee directly and to the Holders in accordance with Condition 15 within 10 Business Days following the Conversion Date specifying whether or not it has elected that a Conversion Shares Offer be conducted. If so elected, the Conversion Shares Offer Period, during which the Conversion Shares Offer may be made, shall end no later than 40 Business Days after the giving by the Issuer of the Conversion Shares Offer Notice.
- (iii) Any Conversion Shares Offer shall be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Issuer, in its sole and absolute discretion, determines that the Conversion Shares Offer is practicable. The Issuer or the purchasers of the

Conversion Shares sold in any Conversion Shares Offer shall bear the costs and expenses of any Conversion Shares Offer (other than the taxes referred to in the definition of Conversion Shares Offer Consideration), including the fees of the Conversion Shares Offer Agent, if any. If a prospectus or other offering document is required to be prepared in connection with a Conversion Shares Offer, the Issuer will facilitate the preparation of such prospectus or other offering document, and the Issuer and/or its directors will take responsibility for such prospectus or other offering document, in each case, if and to the extent then required by applicable laws and regulations then in effect. In addition, if so requested by the Conversion Shares Depositary as offeror, the Issuer shall indemnify the Conversion Shares Depositary for any losses incurred in connection with any Conversion Shares Offer.

- (iv) Upon completion of the Conversion Shares Offer, the Issuer or the Conversion Shares Depositary will provide notice to the Trustee and the Holders in accordance with Condition 15 of the composition of the Conversion Shares Offer Consideration (and of the deductions to the cash component, if any, of the Conversion Shares Offer Consideration (as set out in the definition of Conversion Shares Offer Consideration)) per Calculation Amount.
- (v) The Issuer reserves the right, in its sole and absolute discretion, to terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period by providing at least three Business Days' notice to the Trustee directly and to the Holders in accordance with Condition 15, and, if it does so, the Issuer may, in its sole and absolute discretion, take steps (including changing the Suspension Date) to deliver to Holders the Conversion Shares at a time that is earlier than the time at which they would have otherwise received the Conversion Shares Offer Consideration had the Conversion Shares Offer been completed.
- (vi) By its subscription for, purchase or other acquisition of the Notes, each Holder acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Conversion Shares Depositary such Holder shall be deemed to have: (i) irrevocably consented to any Conversion Shares Offer and to the Conversion Shares Depositary using the Conversion Shares to settle any Conversion Shares Offer in accordance with these Conditions, (ii) consented to the transfer of the beneficial interest it holds in the Conversion Shares to the Conversion Shares Depositary in connection with the Conversion Shares Offer in accordance with these Conditions, (iii) irrevocably agreed that the Issuer, the Conversion Shares Depositary and the Conversion Shares Offer Agent, if any, may take any and all actions necessary to conduct the Conversion Shares Offer in accordance with these Conditions, and (iv) agreed that none of the Issuer, the Trustee, the Conversion Shares Depositary, if any, or the Conversion Shares Offer Agent, if any, shall, to the extent permitted by applicable law, incur any liability to the Holders in respect of the Conversion Shares Offer (except for the obligations of the Conversion Shares Depositary in respect of the Holders' entitlement to any Conversion Shares Offer Consideration).
- (vii) Neither the occurrence of a Trigger Event nor, following the occurrence of a Trigger Event, the election (if any) by the Issuer to undertake a Conversion Shares Offer on the terms set out herein, shall preclude the Issuer from undertaking a rights issue at any time on such terms as the Issuer deems appropriate, at its sole discretion, including, for the avoidance of doubt, the offer of ordinary shares at or below the Conversion Price.

(e) *Settlement Procedure*

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

- (i) The Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will be delivered to Holders in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless the Conversion Shares are not a participating security in CREST at the relevant time, in which case the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will either be delivered in the form of the relevant clearing system in which the Conversion Shares are a participating security or in certificated form, as notified by the Issuer to the Holders in accordance with Condition 15. Where the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are to be delivered through CREST or such other clearing system in which such Conversion Shares are a participating security, they will be delivered to the account specified by the relevant Holder in the relevant Conversion Shares Settlement Notice.
- (ii) Where the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are to be delivered in certificated form, the name of the relevant Holder (or its nominee) will be entered in the Issuer's share register and a certificate in respect thereof will be dispatched by mail free of charge to the relevant Holder or as it may direct in the relevant Conversion Shares Settlement Notice.
- (iii) The cash component, if any, of any Conversion Shares Offer Consideration will be paid to the Holders (A) if the relevant Conversion Shares Settlement Notice is not delivered to the Conversion Shares Depositary before the end of the Conversion Shares Offer Period, by Sterling cheque drawn on a bank in London and mailed to their address shown on the Register on or around the date on which the Conversion Shares Offer Period ends, or (B) if the relevant Conversion Shares Settlement Notice is delivered to the Conversion Shares Depositary before the end of the Conversion Shares Offer Period, by transfer on or around the date on which the Conversion Shares Offer Period ends to such Sterling account maintained by the payee with a bank in London as the Holder may direct in such notice.
- (iv) The Conversion Shares (and the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will not be available for delivery (A) to, or to a nominee for, Clearstream, Luxembourg or Euroclear or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (B) to a person, or nominee or agent for a person, whose business is or includes issuing depository receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the "abolition day" as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom, or, if earlier, such other time at which the Issuer, in its absolute discretion, determines that no charge under Section 67, 70, 93 or 96 of the Finance Act 1986 or any similar charge (under any successor legislation) would arise as a result of such delivery or (C) to the CREST account of such a person mentioned in (A) or (B).
- (v) Neither the Issuer, nor any member of the Group shall be liable for any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the delivery of Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration), which tax shall be borne solely by the Holder or, if different, the person to whom the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are delivered.
- (vi) The Conversion Shares Offer Notice shall specify the Suspension Date. On the Suspension Date, the Issuer shall deliver a Conversion Shares Settlement Request Notice to the Trustee directly and to the Holders in accordance with

Condition 15. Such notice shall request that Holders complete a Conversion Shares Settlement Notice and shall specify the Notice Cut-off Date and the Final Cancellation Date.

- (vii) In order to obtain delivery of the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable, a Holder must deliver its Conversion Shares Settlement Notice to the Conversion Shares Depositary (or to the relevant recipient as contemplated above) on or before the Notice Cut-off Date. If such delivery is made after the end of normal business hours at the specified office of the Conversion Shares Depositary (or of the relevant recipient), such delivery shall be deemed for all purposes to have been made or given on the next following Business Day. The Conversion Shares Settlement Notice must be delivered to the specified office of the Conversion Shares Depositary (or of the relevant recipient) together with the relevant Notes.

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

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

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

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

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

10. **ADJUSTMENTS TO THE CONVERSION PRICE**

- (a) *Adjustments to the Conversion Price*

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

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

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

where:

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

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

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

- (ii) If and whenever the Issuer shall issue any ordinary shares credited as fully paid to the Issuer's shareholders as a class by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such ordinary shares are or are to be issued instead of the whole or part of a Cash Dividend which the Issuer's shareholders would or could otherwise have elected to receive, (2) where the Issuer's shareholders may elect to receive a Cash Dividend in lieu of such ordinary shares or (3) where any such ordinary shares are or are expressed to be issued in lieu of a dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to the Issuer's shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to such issue by the following fraction:

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

where:

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

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

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

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

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

where:

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

Such adjustment shall become effective on the Effective Date.

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

- (1) the aggregate consideration receivable or price for ordinary shares issued for cash shall be the amount of such cash;
 - (2) if the consideration or price determined pursuant to (1) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date;
 - (3) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant ordinary shares or otherwise in connection therewith;
 - (4) the consideration or price shall be determined as provided in (1)-(3) above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity; and
 - (5) references herein to "cash" shall be construed as cash consideration within the meaning of Section 583(3) of the Companies Act.
- (iv) If and whenever the Issuer shall pay any Extraordinary Dividend to shareholders of the Issuer as a class, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

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

where:

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

Such adjustment shall become effective on the Effective Date.

Notwithstanding the foregoing provisions:

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

(b) *No Retroactive Adjustments*

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

(c) *Decision of an Independent Financial Adviser*

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

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

On any adjustment to the Conversion Price pursuant to this Condition 9, if the resultant Conversion Price is a number with more decimal places than the initial Conversion Price, that number shall be rounded to the same number of decimal places as the initial Conversion Price. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

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

The Conversion Price shall not in any event be reduced to below the nominal value of the ordinary shares.

(e) *Qualifying Takeover Event*

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

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

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

with Condition 15 of the New Conversion Price and of any such modifications and amendments thereafter.

- (i) In the case of a Qualifying Takeover Event:
 - (A) the Issuer shall, to the extent permitted by applicable law and regulation, on or prior to the QTE Effective Date, enter into such agreements and arrangements (which may include a supplemental trust deed and amendments and modifications to these Conditions and the Trust Deed) as may be required to ensure that, with effect from the QTE Effective Date, the Notes shall be convertible into, or exchangeable for, Approved Entity Shares, *mutatis mutandis* in accordance with, and subject to, the provisions in Condition 9 (as may be so supplemented, amended or modified), at the New Conversion Price and any references to the Conversion Price shall be construed as references to the New Conversion Price; and
 - (B) upon the occurrence of a Trigger Event where the Conversion Date falls on or after the QTE Effective Date, the Issuer shall procure (to the extent within its control) the issue of the relevant number of Approved Entity Shares *mutatis mutandis* in the manner provided in Condition 9 above, as may be amended or modified as provided above.

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

- (ii) In the case of a Takeover Event that is not a Qualifying Takeover Event (including if that is because the Acquirer is a Governmental Entity), with effect from the occurrence of the Takeover Event and unless a Conversion Date shall have occurred prior to the date of such Takeover Event, outstanding Notes shall not be subject to Automatic Conversion at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) (or where the Conversion Date occurs on or after the date of such Takeover Event) the outstanding principal amount of each Note will automatically be written down to zero, each Note will be cancelled, all accrued but unpaid interest and any other amounts payable on each Note will be cancelled (irrespective of whether such amounts have become due and payable prior to the occurrence of the Trigger Event) and the Noteholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Notes or to any interest or other amount so cancelled.

(f) *Covenants*

Whilst any Note remains outstanding, the Issuer shall (if and to the extent permitted by the Regulatory Capital Requirements from time to time and only to the extent that such covenant would not cause a Regulatory Event to occur) in the event of a Newco Scheme, save with the approval of an Extraordinary Resolution, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to these Conditions and the Trust Deed as are necessary to ensure that the Notes may be converted into or exchanged for ordinary shares or units or the

equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed. The Trustee shall (at the expense of the Issuer and provided that the Trustee is satisfied that the effect of such amendments will be only that the Notes may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions) be bound to concur in effecting such amendments, provided that the Trustee shall not be bound to concur if to do so would, in the opinion of the Trustee, (i) expose the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) change, increase or add to the obligations or duties of the Trustee or (iii) remove or amend any protection or indemnity afforded to, or any other provisions in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes.

11. TAXATION

(a) *Payment without withholding*

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts in respect of any interest on the Notes ("**Additional Amounts**"), but not, for the avoidance of doubt, in respect of the payment of any principal in respect of the Notes, as may be necessary in order that the net amounts in respect of any interest on the Notes received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of interest on the Notes in the absence of the withholding or deduction, except that no Additional Amounts shall be payable in relation to any payment in respect of any Note:

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

For the avoidance of doubt, any amounts to be paid by the Issuer on the Notes will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (or any law implementing such an

intergovernmental agreement) (a "**FATCA Withholding Tax**"), and the Issuer will not be required to pay any Additional Amounts on account of any FATCA Withholding Tax.

(b) *Additional Amounts*

Any reference in these Conditions to any interest in respect of the Notes shall be deemed also to include any Additional Amounts which is, were or would be payable under this Condition 9.

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

12. **PRESCRIPTION**

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

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

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

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction), without further notice:

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

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

(b) *Winding-Up Event*

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

(c) *Right of Noteholders*

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

(d) *Extent of Noteholder's remedy*

No remedy against the Issuer other than the institution of the proceedings referred to in this Condition 13 or proving and/or claiming in a Winding-Up, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or the Trust Deed.

14. **REPLACEMENT OF CERTIFICATES**

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

15. **NOTICES**

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

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

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting of Noteholders for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which is to deal with certain proposals (including any proposal to change any Interest Payment Date or any optional redemption date, to reduce the amount of interest payable in respect of the Notes, to reduce the principal amount of the Notes, to alter the method

of calculating of any interest in respect of the Notes, to change the currency of payments under the Notes, to modify the provisions of Conditions 3, 4 or 5, to modify the provisions of Condition 9 and/or Condition 10 (other than pursuant to or as a result of any amendment to these Conditions and the Trust Deed made pursuant to and in accordance with Condition 10(e) or 10(f)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**"), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the aggregate principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting and whether or not they voted on the resolution.

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

(b) *Modification, authorisation, waiver*

Except where the Trustee is bound pursuant to Conditions 10(e)(i) and 10(f) to give effect to the amendments described therein, the Trustee may agree (other than in respect of a Reserved Matter), without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest error.

(c) *Supervisory Permission*

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

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

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

(e) *Notification to the Noteholders*

Any modification, abrogation, waiver or authorisation referred to in this Condition 16 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, notified by

the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

17. **RIGHTS OF THE TRUSTEE**

(a) *Indemnification and protection of the Trustee*

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

(b) *Trustee Contracting with the Issuer*

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

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

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

(d) *Mandatory modifications*

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

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

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

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

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

18. **FURTHER ISSUES**

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

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

(a) *Governing law*

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

(b) *Jurisdiction of English courts*

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

20. **RIGHTS OF THIRD PARTIES**

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

21. **DEFINITIONS**

(a) *Definitions*

In these Conditions:

"5-year Mid-Swap Rate" has the meaning given to it in Condition 6(d)(ii).

"5-year Mid-Swap Rate Quotations" has the meaning given to it in Condition 6(d)(ii).

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

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

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

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

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

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

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

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

"Approved Entity Shares" means ordinary shares in the capital of a body corporate that constitutes equity share capital or the equivalent (or depository or other receipts representing the same) which are listed and admitted to trading on a Recognised Stock Exchange.

"Assets" means the unconsolidated gross assets of the Issuer, as shown in its latest published audited balance sheet, but adjusted for subsequent events in such manner as the directors of the Issuer may determine.

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

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

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

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

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

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

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

"Cash Dividend" means any dividend or distribution in respect of the ordinary shares to shareholders of the Issuer which is to be paid or made in cash (in whatever currency),

and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to shareholders upon or in connection with a reduction of capital.

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

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

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

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

"**Common Equity Tier 1 Capital Ratio**" means, at any time, the ratio of Common Equity Tier 1 of the Group at such time to the Risk Weighted Assets of the Group at such time, expressed as a percentage and on the basis that all measures used in such calculation shall be calculated without applying the transitional provisions set out in Part Ten of the CRD IV Regulation.

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

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

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

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

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

"**Conversion Shares**" means the ordinary shares of the Issuer currently with a nominal value of £1.25 each to be issued to the Conversion Shares Depositary (or to the relevant recipient in accordance with these Conditions) following an Automatic Conversion, which ordinary shares shall be in such number as is determined by dividing the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date by the Conversion Price on the Conversion Date rounded down, if necessary, to the nearest whole number of ordinary shares.

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

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

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

"Conversion Shares Offer Consideration" means in respect of each Note (i) if all of the Conversion Shares are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of the Conversion Shares attributable to such Note, (ii) if some but not all of the Conversion Shares are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of the Conversion Shares attributable to such Note and (y) the *pro rata* share of the Conversion Shares not sold pursuant to the Conversion Shares Offer attributable to such Note rounded down to the nearest whole number of Conversion Shares, and (iii) if no Conversion Shares are sold in a Conversion Shares Offer, the relevant Conversion Shares attributable to such Note rounded down to the nearest whole number of Conversion Shares, subject in the case of (i) and (ii)(x) above to deduction from any such cash proceeds of an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the transfer of any interest in the Conversion Shares to the Conversion Shares Depositary as a consequence of the Conversion Shares Offer.

"Conversion Shares Offer Notice" means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 15 specifying (i) whether or not the Issuer has elected that a Conversion Shares Offer be made and, if so, the Conversion Shares Offer Period, (ii) the Suspension Date and (iii) details of the Conversion Shares Depositary or, if the Issuer has been unable to appoint a Conversion Shares Depositary, such other arrangements for the issuance and/or delivery of the Conversion Shares or the Conversion Shares Offer Consideration, as applicable, to the Holders as it shall consider reasonable in the circumstances.

"Conversion Shares Offer Period" means the period during which the Conversion Shares Offer may occur, which period shall end no later than 40 Business Days after the delivery of the Conversion Shares Offer Notice.

"Conversion Shares Settlement Notice" means a written notice to be delivered by a Holder to the Conversion Shares Depositary (or to the relevant recipient in accordance with these Conditions), with a copy to the Trustee, no earlier than the Suspension Date containing the following information: (i) the name of the Holder, (ii) the aggregate amount of the Authorised Denomination of the Notes held by such Holder on the date of such notice, (iii) the name to be entered in the Issuer's share register, (iv) the details of the CREST or other clearing system account or, if the Conversion Shares are not a participating security in CREST or another clearing system, the address to which the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) and/or cash (if not expected to be delivered through the Clearing Systems) should be delivered and (v) such other details as may be required by the Conversion Shares Depositary.

"Conversion Shares Settlement Request Notice" means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 15 on the Suspension Date requesting that Holders complete a Conversion Shares Settlement Notice and specifying (i) the Notice Cut-off Date and (ii) the Final Cancellation Date.

"CRD IV Directive" means Directive (2013/36/EU) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time.

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

"Current Market Price" means, in respect of an ordinary share at a particular date, the average of the daily Volume Weighted Average Price of an ordinary share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that, if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Cash Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Cash Dividend (or cum- any other entitlement), then:

- (i) if the ordinary shares to be issued do not rank for the Cash Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the ordinary shares shall have been based on a price cum-Cash Dividend (or cum- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
- (ii) if the ordinary shares to be issued do rank for the Cash Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the ordinary shares shall have been based on a price ex-Cash Dividend (or ex- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof increased by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Cash Dividend (or cum- any other entitlement) in respect of a Cash Dividend (or other entitlement) which has been declared or announced but the ordinary shares to be issued do not rank for that Cash Dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an ordinary share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period, the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

"Day-Count Fraction" has the meaning given to it in Condition 6(d)(ii).

"dealing day" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which ordinary shares may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock

exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

"Dispute" has the meaning given to it in Condition 19(b).

"Distributable Items" means, to the extent such definition is not amended or otherwise modified in the Regulatory Capital Requirements after the Issue Date (in which case such amended or modified definition shall apply), in relation to an Interest Amount (or part thereof):

- (i) the amount of the profits of the Issuer as at the end of the financial year immediately preceding the relevant Interest Payment Date plus any profits brought forward and reserves available for that purpose before distributions to holders of other own funds instruments of the Issuer (other than Tier 2 Capital instruments); less
- (ii) any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the Issuer's articles of association and sums placed to non-distributable reserves in accordance with the Companies Act or the articles of association of the Issuer,

those profits, losses and reserves being determined on the basis of the individual accounts of the Issuer and not on the basis of its consolidated accounts.

"EEA Regulated Market" means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets on financial instruments, as the same may be amended from time to time.

"Effective Date" means, for the purposes of Condition 10(a)(iii), the first date on which the ordinary shares are traded ex-rights, on the Relevant Stock Exchange and, for the purposes of Condition 10(a)(iv), the first date on which the ordinary shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

"Exempt Newco Scheme" means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on the Relevant Stock Exchange or (ii) admitted to listing on such other Recognised Stock Exchange as the Issuer or Newco may determine.

"Existing Shareholders" has the meaning given to it in the definition of Newco Scheme.

"Extraordinary Dividend" means any Cash Dividend that is expressly declared by the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to shareholders as a class or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

"Extraordinary Resolution" has the meaning given to it in the Trust Deed.

"FATCA Withholding Tax" has the meaning given to it in Condition 11(a).

"Final Cancellation Date" means the date on which the Notes in relation to which no Conversion Shares Settlement Notice has been received by the Conversion Shares Depositary on or before the Notice Cut-off Date shall be cancelled, which date may be up to 12 Business Days following the Notice Cut-off Date.

"First Reset Date" has the meaning given to it in Condition 6(b).

"Governmental Entity" means (i) the United Kingdom Government, (ii) an agency of the United Kingdom Government or (iii) a person or entity (other than a body corporate)

controlled by the United Kingdom Government or any such agency referred to in (ii). If the Issuer is then organised in another jurisdiction, the references to "United Kingdom Government" shall be read as references to the government of such other jurisdiction.

"Group" means the Issuer and each entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Regulatory Capital Requirements) of which the Issuer is part from time to time.

"Independent Financial Adviser" means an independent financial institution of international repute appointed by the Issuer at its own expense.

"Initial Interest Rate" has the meaning given to it in Condition 6(b)(i).

"Interest Amount" means the amount of interest payable on each Note on an Interest Payment Date, subject to Condition 6.

"Interest Payment Date" has the meaning given to it in Condition 6(b).

"Interest Period" has the meaning given to it in Condition 6(b).

"Interest Rate" means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be.

"Issue Date" means 8 February 2016.

"Issuer" has the meaning given to it in the preamble to these Conditions.

"Liabilities" means the unconsolidated gross liabilities of the Issuer, as shown in its latest published audited balance sheet, but adjusted for contingent and prospective liabilities and for subsequent events in such manner as the directors of the Issuer may determine.

"LSE" means the London Stock Exchange plc.

"Margin" has the meaning given to it in Condition 6(d)(ii).

The **"New Conversion Condition"** shall be satisfied if (a) by not later than seven Business Days following the completion of a Takeover Event where the Acquirer is an Approved Entity, there shall be arrangements in place with the Trustee for the benefit of the Holders for the Approved Entity to provide for issuance of Approved Entity Shares following an Automatic Conversion of the Notes on terms *mutatis mutandis* identical to Condition 9(a) and 9(b) and (b) the Issuer, in its sole and absolute discretion has determined that such arrangements are in the best interest of the Issuer and its shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Holders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body).

"New Conversion Price" means the amount determined in accordance with the following formula, which shall apply from the QTE Effective Date:

$$\text{NCP} = \text{ECP} * (\text{VWAPAES} / \text{VWAPOS})$$

where:

"NCP" is the New Conversion Price.

"ECP" is the Conversion Price in effect on the dealing day immediately prior to the QTE Effective Date.

"VWAPAES" means the average of the Volume Weighted Average Price of the Approved Entity Shares (translated, if necessary, into sterling at the Prevailing Rate on the relevant dealing day) on each of the five dealing days ending on the

dealing day prior to the closing date of the Takeover Event (and where references in the definition of "Volume Weighted Average Price" to "ordinary share" shall be construed as a reference to the Approved Entity Shares and in the definition of "dealing day," references to the "Relevant Stock Exchange" shall be to the relevant Recognised Stock Exchange on which the Approved Entity Shares are then listed, admitted to trading or quoted or accepted for dealing).

"**VWAPOS**" is the average of the Volume Weighted Average Price of the ordinary shares (translated, if necessary, into sterling at the Prevailing Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day immediately prior to the closing date of the Takeover Event.

"**Newco**" has the meaning given to it in the definition of Newco Scheme.

"**Newco Scheme**" means a scheme of arrangement or analogous proceeding ("**Scheme of Arrangement**") which effects the interposition of a limited liability company ("**Newco**") between the shareholders of the Issuer immediately prior to the Scheme of Arrangement (the "**Existing Shareholders**") and the Issuer; provided that: (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

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

"**Noteholder**" or "**Holder**" has the meaning given to it in Condition 1.

"**Notice Cut-off Date**" means the date specified as such in the Conversion Shares Settlement Request Notice, which date shall be at least 40 Business Days following the Suspension Date.

"**Notional Preference Share**" has the meaning given to it in Condition 5(a).

"**ordinary shares**" means (a) prior to the QTE Effective Date, fully paid ordinary shares in the capital of the Issuer currently with a nominal value of £1.25 each and (b) on and after the QTE Effective Date, the relevant Approved Entity Shares.

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

"**own funds instruments**" has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

"**Parity Obligations**" means any obligations of the Issuer (including any guarantee or other support obligations) which rank, or are expressed to rank, *pari passu* with the Issuer's obligations in respect of the Notes on a winding-up of the Issuer prior to a Trigger Event (and, for the avoidance of doubt, shall include any other Additional Tier 1 Capital securities of the Issuer (if any) from time to time outstanding).

"**Paying Agent**" means each entity appointed as a paying agent from time to time pursuant to the Agency Agreement.

"payment business day" has the meaning given to it in Condition 7(d).

a **"person"** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) or other legal entity.

"Performance Obligation" has the meaning given to it in Condition 13(b).

"Prevailing Rate" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon, London time, on that date as appearing on or derived from the relevant page on Bloomberg (or such other information service provider that displays the relevant information) or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon, London time, on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the relevant page on Bloomberg (or such other information service provider that displays the relevant information), the rate determined in such other manner as an Independent Financial Adviser shall in good faith prescribe.

"Principal Paying Agent" means Citibank N.A., London branch and any successor principal paying agent appointed from time to time in connection with the Notes.

"QTE Effective Date" means the date with effect from which the New Conversion Condition shall have been satisfied.

"Qualifying Takeover Event" means a Takeover Event where: (i) the Acquirer is an Approved Entity; and (ii) the New Conversion Condition is satisfied.

"Recognised Stock Exchange" means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

"Record Date" has the meaning given to it in Condition 7(f).

"Register" has the meaning given to it in Condition 1.

"Registrar" means Citigroup Global Markets Deutschland AG or such other registrar appointed by the Issuer from time to time in respect of the Notes in accordance with these Conditions.

"Regulatory Capital Requirements" means any requirements contained in the laws, regulations, requirements, standards, guidelines and policies of the Competent Authority, any other national and/or European authority, then in effect in the United Kingdom (or in such other jurisdiction in which the Issuer may be incorporated or domiciled) relating to capital adequacy and applicable to the Issuer and/or the Group including, as at the date hereof, the CRD IV Directive, the CRD IV Regulation and related technical standards.

"Regulatory Event" has the meaning given to it in Condition 8(c).

"Regulatory Preconditions" means, in relation to any redemption of the Notes, to the extent required by prevailing Regulatory Capital Requirements:

- (i)
 - (A) the Group having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Group; or
 - (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Group would, following such redemption, exceed its minimum capital requirements (including any

capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and

- (ii) in the case of a redemption pursuant to Condition 6(c) or 6(d) occurring prior to the fifth anniversary of the Issue Date only:
 - (A) in the case of a redemption due to the occurrence of a Regulatory Event, the Competent Authority considering such change to be sufficiently certain and the Issuer having demonstrated to the satisfaction of the Competent Authority that such Regulatory Event was not reasonably foreseeable as at the Issue Date; or
 - (B) in the case of a redemption due to the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Competent Authority that such Tax Event is material and was not reasonably foreseeable as at the Issue Date,

provided that if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i) and (ii) of this definition, the Issuer having complied with such other pre-condition(s).

The granting of Supervisory Permission in respect of such redemption shall be treated (without liability) by the Issuer, the Trustee, the Holders and all other interested parties as conclusive and sufficient evidence of the satisfaction of these pre-conditions.

"Relevant Currency" means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination the LSE is not the Relevant Stock Exchange, the currency in which the ordinary shares are quoted or dealt in on the Relevant Stock Exchange at such time.

"Relevant Date" means (A) in respect of any payment other than a sum to be paid by the Issuer in a Winding-Up of the Issuer, whichever is the later of: (1) the date on which the payment in question first becomes due; and (2) if the full amount payable has not been received by the Registrar or another Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders and (B) in respect of a sum to be paid by the Issuer in a Winding-Up of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up (or, in the case of an administration, one day prior to the date on which any dividend is distributed).

"Relevant Jurisdiction" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and Interest Amounts on the Notes.

"Relevant Stock Exchange" means the LSE or, if at the relevant time the ordinary shares are not at that time listed and admitted to trading on the LSE, the principal stock exchange or securities market on which the ordinary shares are then listed, admitted to trading or quoted or accepted for dealing.

"Reserved Matter" has the meaning given to it in Condition 16(a).

"Reset Date" means the First Reset Date and each fifth anniversary date thereafter, commencing on 8 December 2027.

"Reset Determination Date" has the meaning given to it Condition 6(d)(ii).

"Reset Interest Rate" has the meaning given to it in Condition 6(d)(i).

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

"Reset Reference Bank Rate" has the meaning given to it in Condition 6(d)(ii).

"Reset Reference Banks" has the meaning given to it in Condition 6(d)(ii).

"Risk Weighted Assets" means, at any time, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Group at such time, as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements applicable to the Group at such time (which calculation shall be binding on the Trustee and the Holders). For the purposes of this definition, the term "risk weighted assets" means the risk weighted assets or total risk exposure amount, as calculated by the Issuer, in accordance with the prevailing Regulatory Capital Requirements applicable to the Group.

"Scheme of Arrangement" has the meaning given to it in the definition of Newco Scheme.

"Screen Page" has the meaning given to it in Condition 6(d)(ii).

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

"Settlement Date" means (i) with respect to any Note in relation to which a Conversion Shares Settlement Notice is received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the later of (a) the date that is two Business Days after the end of the relevant Conversion Shares Offer Period and (b) the date that is two Business Days after the date on which such Conversion Shares Settlement Notice has been received by the Conversion Shares Depositary and (ii) with respect to any Note in relation to which a Conversion Shares Settlement Notice is not received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the date on which the Conversion Shares Depositary delivers the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable.

"shareholders" means the holders of ordinary shares.

"Solvency Condition" has the meaning given to it in Condition 4(a).

"£", "sterling" and "pounds sterling" are to the lawful currency for the time being of the United Kingdom.

"Subsidiary" has the meaning given to it in Section 1159 of the Companies Act.

"Supervisory Permission" means, in relation to any actions, such supervisory permission required therefor within prescribed periods from, the Competent Authority, or such waiver of the then prevailing Regulatory Capital Requirements from the Competent Authority, as is required under the then prevailing Regulatory Capital Requirements.

"Suspension Date" means, with respect to each Clearing System, the date specified in the Conversion Shares Offer Notice as the date on which such Clearing System shall suspend all clearance and settlement of transactions in the Notes in accordance with its rules and procedures, which date shall be no later than 38 Business Days after the delivery of the Conversion Shares Offer Notice to such Clearing System (and, if the

Issuer elects that a Conversion Shares Offer be made, such date shall be at least two Business Days prior to the end of the relevant Conversion Shares Offer Period).

A **"Takeover Event"** shall occur if an offer is made to all (or as nearly as may be practicable all) shareholders (or all (or as nearly as may be practicable all) such shareholders other than the offeror and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme with regard to such acquisition and (such offer or scheme having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in any person and/or any associate of that person (as defined in Section 988(1) of the Companies Act), in each case, other than in the event of a Newco Scheme.

"Takeover Event Notice" means the notice to the Holders in accordance with Condition 15 notifying them that a Takeover Event has occurred and specifying: (1) the identity of the Acquirer; (2) whether the Takeover Event is a Qualifying Takeover Event or not; (3) in the case of a Qualifying Takeover Event, if determined at such time, the New Conversion Price; and (4) if applicable, the QTE Effective Date.

"Tax Event" has the meaning given to it in Condition 8(d).

"Taxes" has the meaning given to it in Condition 11(a).

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

"Tier 2 Capital" has the meaning given to it (or any successor such term) from time to time in the Regulatory Capital Requirements.

"Transfer Agent" means Citibank N.A., London branch.

"Trigger Event" means the Common Equity Tier 1 Capital Ratio of the Group falls below 7.00 per cent.

"Trustee" means Citicorp Trustee Company Limited or such other trustee appointed by the Issuer from time to time in respect of the Notes in accordance with the Conditions and the Trust Deed.

"Trust Deed" has the meaning given to it in the preamble to these Conditions.

"Volume Weighted Average Price" means, in respect of an ordinary share (or an Approved Entity Share, as applicable) on any dealing day, the order book volume-weighted average price of an ordinary share (or Approved Entity Share, as applicable) published by or derived from the relevant Bloomberg page or such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an ordinary share (or an Approved Entity Share, as applicable) in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or determined as an Independent Financial Adviser might otherwise determine in good faith to be appropriate.

"Winding-Up" has the meaning given to it in Condition 5(a).

"Winding-Up Event" means with respect to the Notes, if:

- (i) a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer may be incorporated) makes an order for the winding-up of the Issuer which is not successfully appealed within 30 days of the making of such order,

or the Issuer's shareholders adopt an effective resolution for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction, merger or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Holders and do not provide that the Notes thereby become redeemable or repayable in accordance with these Conditions);

- (ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

(b) *Construction of certain references*

In these Conditions, unless otherwise specified or unless the context otherwise requires:

- (i) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;
- (ii) references to any issue or offer or grant to shareholders "as a class" or "by way of rights" shall be taken to be references to an issue or offer or grant to all or substantially all shareholders, as the case may be, other than shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant;
- (iii) references to "ordinary share capital" has the meaning provided in Section 1119 of the Corporation Tax Act 2010 and "equity share capital" has the meaning provided in Section 548 of the Companies Act;
- (iv) references to the "issue" of Conversion Shares shall include the transfer and/or delivery of Conversion Shares by the Issuer or any of its Subsidiaries, whether newly issued and allotted or previously existing;
- (v) ordinary shares held by the Issuer or any of its Subsidiaries shall not be considered as or treated as "in issue";
- (vi) references to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment; and
- (vii) headings and sub-headings are for ease of reference only and shall not affect the construction of these Conditions.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes are represented by a Global Certificate that is registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depositary for the Clearing Systems.

The Global Certificate contains provisions that modify the Conditions as they apply to the Notes evidenced by the Global Certificate, and a summary of certain of those provisions is set out below.

Exchange for Individual Certificates

Registration of title to Notes in a name other than that of Citivic Nominees Limited (or any replacement or successor nominee for the Clearing Systems) will be permitted only if (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 13 (*Non-Payment when due and Winding-Up Event*) occurs. The Issuer shall notify the registered holder of the Global Certificate of the occurrence of any of the events specified in (i) and (ii) as soon as practicable thereafter.

Whenever the Global Certificate is to be exchanged for Individual Certificates, such Individual Certificates shall be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any registered holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has either the office identified with its name in the Conditions of the Notes or any other office notified to any relevant parties pursuant to the Agency Agreement.

Accountholder

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the registered holder of the Global Certificate in accordance with and subject to the terms of the Global Certificate and the Trust Deed.

Transfers

Book-entry interests in the Notes represented by the Global Certificate are transferable only in accordance with, and subject to, the provisions hereof and the rules and operating procedures of the Clearing Systems. Transfers of such book-entry interests will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants.

Payments

Payments due in respect of Notes represented by the Global Certificate which, according to the Conditions, require surrender or endorsement of a Certificate, shall be made to or to the order of the registered holder and such payment will discharge the obligations of the Issuer in respect of the relevant

payment under the Notes. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to or to the order of the registered holder.

Notices

Notwithstanding Condition 15 (*Notices*) and Condition 9 (*Automatic Conversion*), so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of the Clearing Systems, or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) for communication to the relative accountholders rather than by publication as required by Condition 15 (*Notices*) **provided that**, so long as the Notes are admitted to listing or trading on any stock exchange, such notice is also given in a manner which complies with the rules and regulations of such stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) as aforesaid.

Conversion Shares Settlement Notice

Notwithstanding Condition 9(e)(vii) (*Automatic Conversion—Settlement Procedure*), so long as the Notes are represented by the Global Certificate deposited with a depository or a common depository for the Clearing Systems or an Alternative Clearing System, a Conversion Shares Settlement Notice may be given by a Holder by delivering it to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System and, in any case, such notices shall be deemed to have been delivered to the Conversion Shares Depository on the date of delivery of such notice to the Conversion Shares Depository by Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System and/or its depository or common depository.

Cash component

Notwithstanding Condition 9(e)(iii) (*Automatic Conversion—Settlement Procedure*), so long as the Notes are represented by the Global Certificate deposited with a depository or a common depository for the Clearing Systems or an Alternative Clearing System, the cash component, if any, of any Conversion Shares Offer Consideration will be delivered through the facilities of the Clearing Systems on or around the date on which the Conversion Shares Offer Period ends, subject to the applicable rules and operating procedures of the Clearing System in effect at such time.

Payment Business Day

In the case of all payments made in respect of the Global Certificate, so long as the Global Certificate is held on behalf of a Clearing System or an Alternative Clearing System, the definition for "**payment business day**" in Condition 7(d) (*Payments on business days*) shall be amended and shall be any day on which banks are open for general business (including dealings in foreign currencies) in London.

Record Date

For so long as all Notes are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 7(f) (*Record Date*) provided that the words "fifteenth day" shall be deemed to be replaced with "Clearing System Business Day". "**Clearing System Business Day**" means a day on which each clearing system is open for business.

Calculation of interest

For so long as all of the Notes outstanding are represented by the Global Certificate, interest will be calculated in respect of the aggregate principal amount of the Notes represented by the Global Certificate (and not per Calculation Amount as provided in Condition 6(c) (*Calculation of interest*)) but otherwise in accordance with Condition 6 (*Interest*).

Clearing Systems

References in the Global Certificate and in these Listing Particulars to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

Electronic Consent and Written Resolution

For so long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of the Clearing Systems and/or an Alternative Clearing System then, in respect of any resolution proposed by the Issuer or the Trustee:

- (a) where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Noteholders through the Clearing Systems and/or an Alternative Clearing System as provided in the Trust Deed, each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing Systems and/or an Alternative Clearing System, as the case may be, to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the Notes outstanding by close of business on the relevant time and date for the blocking of their accounts in the relevant Clearing System and/or Alternative Clearing System (an "**Electronic Consent**"). Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Neither the Issuer nor the Trustee shall be liable or responsible to anyone for such reliance; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (i) by accountholders in the Clearing Systems and/or an Alternative Clearing System, as the case may be, with entitlements to such Global Certificate and/or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that Accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and, in the case of (ii) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and the accountholder identified by the relevant clearing system for the purposes of (ii) above. Any Written Resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used to fund the repurchase of (i) £300,000,000 perpetual capital notes issued on 20 December 2013 and (ii) £150,000,000 perpetual capital notes issued on 29 December 2014, each issued by members of the CYBG Group and to maintain the regulatory capital base of the CYBG Group.

INFORMATION ON THE ISSUER

CYBG PLC 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 indirectly owns 100 per cent. of the ordinary shares of Clydesdale Bank. A list of the Issuer's significant subsidiaries following implementation of the Demerger 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 CYBI and Clydesdale Bank. Clydesdale Bank has no material operations outside the UK. Neither the Issuer nor CYBI holds a UK banking licence and only CYBI undertakes limited economic activity beyond its principal activity, with all operations undertaken through UK registered entities. The only non UK registered entities of CYBG Group are two trustee companies that are part of CYBG Group's securitisation vehicles. Clydesdale Bank is an "authorised person" under the Financial Services and Market Act 2000 and is regulated by the PRA and FCA.

Subsidiaries

The Issuer is the holding company of the CYBG Group.

As at the date of these Listing Particulars the Issuer has the following significant subsidiary undertakings, each of which are currently wholly owned, either directly or indirectly, by CYBI and consolidated into the annual financial statements of CYBI:

Name	Principal Activity	Registered Office	Percentage of shares and voting rights held	Jurisdiction
CYB Investments Limited.....	Holding Company	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Services Limited.....	IT and group services	30 St Vincent Place, Glasgow, G1 2HL	100%	Scotland
Clydesdale Bank PLC.....	Banking	30 St Vincent Place, Glasgow, G1 2HL	100%	Scotland
Yorkshire Bank Home Loans Limited.....	Mortgage Finance	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Intermediaries Holdings Limited.....	Holding Company	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales
CYB Intermediaries Limited	Insurance Intermediary	20 Merrion Way, Leeds, LS2 8NZ	100%	England & Wales

INFORMATION ON CYBG GROUP

1. Overview

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

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

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

Following a period of restructuring that started in 2012, CYBG Group's balance sheet has been significantly reshaped and strengthened.

2. Strengths

CYBG Group believes it has the following key strengths:

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

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

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

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

- An estimated 9.1 per cent. share of the PCA market by balances in its core regions (compared to 3.1 per cent. in the UK) (*Source: CACI Market Share Data as at 31 July 2015*). As at 30 September 2015, CYBG Group had total PCA balances of £6,944 million;
- An estimated 3.8 per cent. share of the personal variable rate savings account and fixed rate term deposit market by balances in its core regions (compared to 1.3 per cent. in the UK) (*Source: CACI Market Share Data as at July 2015*). As at 30 September 2015, CYBG Group had total personal variable rate savings account balances of £6,013 million and total personal fixed rate term deposits of £4,519 million;
- An estimated 14 per cent. share of the BCA market by number of accounts in Scotland (*Source: CMA Review, Banking services to small and medium sized enterprises, July 2014*) (compared to 1.4 per cent. in the UK by balances as at 30 June 2015 (*Source: Bank of England data*)). As at 30 September 2015, CYBG Group had total BCA balances of £6,038 million;
- An estimated 8.1 per cent. share of the SME business lending market by balances in its core regions (compared to 3.6 per cent. in the UK) (*Source: BBA 1Q2015 SME lending, as at 31 March 2015*). As at 30 September 2015, CYBG Group had total SME business lending balances of £7,061 million; and
- An estimated 3.9 per cent. share of the mortgage market by balances in its core regions (compared to 1.6 per cent. in the UK), with total mortgage balances of £20,504 million (*Source: CML Market Share Information as at 30 September 2015*, with regional market share based on availability of regional loan data for 73 per cent. of the UK market).

2.1.1 *Long established retail banking franchise position*

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

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

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

Branch Network

CYBG Group's branch network, together with its other distribution channels, provides an established platform from which to serve existing retail customers and pursue new customer acquisition opportunities.

Intermediary Mortgage Channel

CYBG Group has a proven track record of more than eleven years of originating mortgages through its third-party distribution channel of mortgage intermediaries. CYBG Group employs an "invitation only" approach to establishing and operating its

mortgage intermediary panel in order to maintain the high quality of its intermediary relationships and customer service. CYBG Group also employs a team of experienced business development managers to manage its relationships with mortgage intermediaries. CYBG Group's relationships with its intermediaries allow for geographic diversification of its mortgage portfolio across the UK.

Digital

CYBG Group's digital platform is rapidly evolving with development in recent years focused on bringing CYBG Group's capabilities closer to parity with peers. CYBG Group offers online and mobile banking to its customers and they are the two fastest growing distribution channels for CYBG Group.

2.1.2 Strong existing SME franchise position

CYBG Group provides its SME customers with a full range of products and services across an £8.8 billion business deposit portfolio as at 30 September 2015, which consists of BCAs (£6.0 billion), variable rate savings accounts (£1.8 billion) and fixed rate term deposits (£1.0 billion). CYBG Group also provides its SME customers with a range of lending products and services across a £7.1 billion portfolio as at 30 September 2015, which consists of term lending (£5.1 billion), overdrafts (£1.2 billion) and working capital solutions (including invoice (£319 million), trade (£30 million) and asset finance (£425 million) products, which is a total of £0.8 billion), with an average deposit balance of £42,000. In addition, CYBG Group offers its business banking products and services to larger corporate businesses where it has the sector expertise, experience or relationships to do so competitively. For the period from 31 December 2014 to 30 September 2015, CYBG Group increased its rate of recruitment of small business new BCA accounts from 2,161 BCA accounts opened in the three months ended 31 December 2014 to 4,311 opened in the three months ended 30 September 2015. As at 30 September 2015, 54 per cent. of CYBG Group's business customers had been business customers with CYBG Group for more than ten years.

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

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

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

2.2 ***Strong local community brands***

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

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

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

- Get the basics right - first time, every time;
- Listen, understand, respond;
- Be accountable - to customers and each other;
- Treat customers' time as more important than your own; and
- Know your neighbourhood.

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

Since the brand re-launch, CYBG Group has seen branch interview satisfaction increase from 95.2 per cent. as at 30 September 2013 to 95.6 per cent. as at 30 September 2014 and 96.8 per cent as at 31 August 2015, as well as an increase in the likelihood of customers recommending CYBG Group from 30.9 per cent. to 42.2 per cent. and 58.4 per cent. respectively, for the same period (*Source: Gusto CEA reports*).

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

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

CYBG Group's operating systems are resilient and provide a platform for customer and balance sheet growth. CYBG Group uses selected outsourcing arrangements with reliable and industry-leading third-party suppliers to maintain flexibility in its cost base and facilitate scalability. However, CYBG Group does not outsource any of its core banking or payment systems.

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

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

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

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

Underlying profitability of the franchise has also begun to be restored and rebuilt as a result of the actions taken during this period of restructuring. CYBG Group's ROTE on the consolidated income statement data that is presented on a management basis, which CYBG Group believes better reflects the underlying performance of CYBG Group's business (the "**Management Basis**") has increased to 5.1 per cent. for the year ended 30 September 2015 from 0.5 per cent. in the year ended 30 September 2012.

2.4.1 *Robustly capitalised in Basel III environment*

CYBG Group believes that its high quality capital levels are robust, as CYBG Group continues to navigate the capital management measures stemming from the implementation of Basel III. CYBG Group believes that its capital base, together with organic capital generation, supports CYBG Group's medium term growth plans.

As at 30 September 2015:

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

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

2.4.2 *Prudent risk appetite coupled with strong asset quality*

CYBG Group manages its loan portfolios using robust underwriting processes supported by staff with sector and product experience, as well as by implementing risk appetite limits. The performance of the loan book has benefited from ongoing risk management actions and a favourable macroeconomic climate in the UK. This is evidenced by the ratio of gross impaired assets to customer loans, which decreased from 1.35 per cent. as at 30 September 2014 to 0.91 per cent. as at 30 September 2015. CYBG Group also engaged a third-party to conduct an asset quality review during 2015, the results of

which reaffirmed the strength of the Credit Risk Management Framework and the adequacy of provisions for bad and doubtful debts.

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

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

2.4.3 *Stable and low cost funding platform*

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

CYBG Group has also actively diversified its funding mix and reduced the utilisation of funding from NAB through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding through these programmes in terms of the type of instrument and product, maturity, currency, counterparty, term structure and market. As at 30 September 2015, CYBG Group had £3,714 million (excluding accrued interest) of outstanding RMBS and covered bonds held by third parties with maturities ranging from August 2016 to June 2026.

CYBG Group plans to continue to manage the overall composition of its funding in terms of the mix of retail and wholesale funding, the mix of on-demand and term deposits, and the overall stability of funding, in order to effectively manage risk and return.

2.5 *Experienced leadership team*

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

The Executive Directors have an average of 25 years of industry experience while the Senior Managers have an average of approximately 8 years of experience with NAB and/or CYBG Group, resulting in deep institutional knowledge complemented by broad industry experience.

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

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

3. **Strategy**

Overview

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

CYBG Group has four clear strategic aims:

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

CYBG Group's business plan is based on the goals, strategic aims and priorities of CYBG Group going forward, and has been prepared employing a number of assumptions that have been referenced to both internal and external data sources. These assumptions include assumptions with respect to the outlook for interest rates and the broader macro-economic environment (in each case as set forth below) and expectations as to the competitive environment, taking into account the current regulatory environment.

With reference to both internal and external data sources, CYBG Group's business plan assumes (i) sustainable GDP growth in the UK, (ii) both inflation and the unemployment rate in the UK remaining low and (iii) measured increases in UK base rates from current levels, with such increases expected to start in 2016. With respect to the macroeconomic environment, the UK economy has in recent years experienced growth in real GDP, reductions in unemployment levels, increases in house prices and increases in consumer confidence, with SME lending showing signs of moving out of a deleveraging phase. In the context of ongoing uncertainties in Europe and Asia, the UK currently enjoys a positive outlook for continued growth in real GDP. The interest rate assumptions are a key sensitivity for the forecast net interest income in the business plan and, therefore, future profitability.

Based on this business plan, CYBG Group is targeting a double digit ROTE within the period up to financial year 2020 following a period of expected increased investment in 2015 and 2016. CYBG Group continues to focus on the momentum and growth resulting from positive dynamics such as its loyal customer base, motivated, engaged staff and solid financial fundamentals. However, CYBG Group has also identified areas that require improvement and change to evolve away from the subsidiary mentality, simplify internal governance and processes, streamline operations and significantly enhance productivity. CYBG Group's near term priorities underpinning this strategy include identifying and enhancing or engaging internal talent, rigorous management of the operating costs of CYBG Group and its investment expenditure, delivery of its digital enablement initiatives and continued focus on enabling customer franchise growth.

CYBG Group is also targeting the delivery of a positive jaws ratio (defined as the difference in the growth rates of income and costs, respectively) annually, other than in the year ending 30 September 2016, after allowing for the impact of increased investment on cost growth. Meeting the positive jaws ratio target over the five year period should drive the cost-to-income ratio to below 60 per cent.

3.1 ***Grow the customer franchises by leveraging capabilities in existing core regional markets and continue its successful national growth strategy***

CYBG Group aims to leverage its retail and SME banking capabilities and customer base to grow the customer franchise by investing in propositions in target segments and geographies. According to September 2015 branch catchment data, CYBG Group had a potential customer population of approximately 18 million within a ten minute drive of a Clydesdale Bank or Yorkshire Bank branch (*Source: Experian Branch Catchments*).

In retail banking, CYBG Group seeks to acquire new customers, with an emphasis on younger, more affluent demographics with the potential for long-term sustainable relationships through its PCA propositions. By continuing to grow the PCA customer base, CYBG Group seeks to also grow customer deposits in order to maintain its overall LDR. During the year ended 30 September 2015, CYBG Group opened 88,511 new PCA accounts, compared to 77,493 new accounts during the year ended 30 September 2014.

CYBG Group also aims to continue to grow nationally in mortgages through the intermediary and proprietary channels as well as in the unsecured loan portfolio by deepening relationships with existing customers and establishing relationships with new customers, in each case consistent with a prudent risk appetite. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise.

CYBG Group is targeting, through the delivery of CYBG Group's strategic priorities described below, an increase in CYBG Group's total retail lending book of between 40 per cent. and 50 per cent. in aggregate within the period up to financial year 2020.

Within the SME business, CYBG Group seeks to drive lending growth by leveraging sector led propositions in selected products and sectors with established capabilities (while executing the run-off of low yielding assets) and acquiring new small business customers and deposits through a customer-driven omni-channel strategy.

3.1.1 *Retail banking – focus on growth in core competencies*

Continue to grow PCA customer base and deposit franchise

CYBG Group plans to continue to grow its PCA customer base in both its core regions and nationally, targeting an increase in market share of PCA flow while maintaining its overall LDR. As at 30 September 2015, CYBG Group had 1.8 million PCA customers.

CYBG Group has seen a significant increase in the average deposit balance per retail customer, from £2,700 for each of PCA and variable rate savings accounts as at 30 September 2012 to £3,500 and £3,600 for PCA balances and £4,200 and £4,700 for savings account balances per customer as at 30 September 2014 and 30 September 2015, respectively.

In order to support the development of sustainable, multi-product customer relationships, CYBG Group aims to deliver a customer experience that makes CYBG Group the first choice for a customer to operate their main bank account. As at 30 September 2015, 60 per cent. of Yorkshire Bank main current account customers and 64 per cent. of Clydesdale Bank main current account customers held a PCA only, 31 per cent. and 24 per cent. respectively held one additional product and 9 per cent. and 12 per cent. held two or more additional products. This compares to a market average of 45 per cent. with only a PCA with the customer's main current account provider, 33 per cent. with one additional product and 22 per cent. with two or more additional products as at 30 September 2015. (*Source: GfK Financial Research Survey*).

3.1.2 *Continue to grow mortgage book*

CYBG Group is targeting growth across the mortgage loan portfolio and an increase in national market share, including managed growth in buy-to-let mortgage lending. CYBG Group plans to deliver this growth with prudent risk controls in place, primarily via a quality intermediary platform with an established track record of growth, alongside a mix of proprietary channels.

CYBG Group has a strong track record of delivering growth in its mortgage book outside of its core regions, increasing diversification from 49 per cent. of gross mortgage balances located outside the core regions as at 30 September 2012 to 59 per cent. as at 30 September 2015. This more balanced geographical exposure was achieved primarily through growth of mortgages originated through the intermediary channel, which increased from 35 per cent. of CYBG Group's gross mortgage balances as at 30 September 2012 to 53.2 per cent. as at 30 September 2015.

In addition to targeted growth in gross new mortgage lending, CYBG Group is running off its low yielding tracker rate mortgage book. In 2008, CYBG Group ceased sales of tracker rate mortgages and the balance of the portfolio has decreased since then. As at 30 September 2015, this tracker rate mortgage portfolio consisted of approximately £2,625 million of mortgages. The run-off of the book is dependent upon customer behaviour, and the book is not expected to fully amortise significantly ahead of its contractual maturity profile in the medium term.

3.1.3 *Grow the SME franchise*

CYBG Group aims to deepen its relationships with existing SME customers, grow its BCA customer base, and develop its business lending in selected products and sectors.

CYBG Group continues to target the acquisition of small business customers through digital and direct channels, including marketing campaigns specifically aimed at these customer segments, such as its business current account free day-to-day banking offer.

The origination of business lending to new SME businesses is a key area of focus, alongside digital and direct channels. CYBG Group's lending strategy includes a focus on higher return products and sectors where CYBG Group has a strong track record and expertise, including agriculture, health, hospitality, transport and storage, manufacturing, finance and CRE.

CYBG Group intends to attract new SME customers by deploying CYBG Group's relationship management proposition supported by specialist sector knowledge and expertise in a number of targeted growth sectors and segments that they believe are underserved by existing providers. CYBG Group seeks to leverage its industry knowledge including by providing development funding to target growth across attractive sectors, for example by using a cash-flow based lending approach which supports asset-light sectors. The penetration of under-served opportunities will be managed within CYBG Group's risk appetite.

As part of this, CYBG Group has executed a managed and controlled re-entry into the CRE market by launching a centralised and specialised CRE capability, led by experienced specialists with deep sector knowledge, to facilitate a strategic re-entry into this sector with targeted lending to good quality, higher margin CRE developments and investments.

Underpinning CYBG Group's approach is the focus on understanding the customer's business and associated financing needs, and ensuring that its banking products fulfil customer requirements. Through the provision of a full suite of banking products, CYBG Group seeks to meet the working capital and longer-term funding requirements of its customers, as well as their cash management and payment services needs.

CYBG Group increased new-to-bank gross SME lending facilities accepted and available to customers from £483 million in the year ended 30 September 2014 to £636 million in the year ended 30 September 2015. In the short term, however, CYBG Group expects its total SME lending balance to decline moderately as low yielding assets run-off. As at 30 September 2015, the SME lending book consisted of approximately £1.1 billion of low yielding business loans out of a total business lending portfolio of £7.1 billion. The low yielding portfolio run-off is aligned with facility contractual end dates and in accordance with conduct best practice guidelines. CYBG Group expects to have

largely exited legacy low yielding loans by 2017, with the remainder fully run-off by 2019.

CYBG Group has actively managed attrition of its SME lending book to improve risk quality and improve overall yields. The following table sets out the composition of CYBG Group's business lending portfolio by core lending, legacy CRE lending and identified run-off.

	As at 30 September			
	2015	2014	2013	2012
	(£bn)			
Core lending	6.0	6.2	9.0	10.8
Legacy CRE portfolio ⁽¹⁾	-	-	-	5.7
2014 Identified run-off lending	1.1	1.8	-	-
Total lending balance	7.1	8.0	9.0	16.5

⁽¹⁾ The 2012 CRE portfolio consisted of approximately £5,225 million of CRE assets and associated loans plus impairment provisions on credit exposures of £463 million and derivative financial instruments of £4 million relating to the legacy CRE portfolio.

Taking into account the run-off in low yielding assets, CYBG Group is aiming to modestly grow CYBG Group's national market share of SME loan balances from its level of 3.6 per cent. as at 31 March 2015, targeting an aggregate increase in SME lending balances between 15 per cent. and 25 per cent. in the period up to financial year 2020.

3.2 ***Strengthen, develop and enhance omni-channel distribution to deliver a consistently superior experience to customers***

CYBG Group plans to continue to develop its omni-channel distribution platform by investing further in scalable digital banking channels and continuing to optimise its branch network to offer customers an integrated experience across digital and physical channels. In doing so, CYBG Group seeks to improve its ability to acquire new customers in its core regions and elsewhere throughout the UK, as well as to service new and existing customers more efficiently and deliver a consistently superior experience to customers.

3.2.1 ***Continue to strengthen digital platform to support consistent and seamless omni-channel experience***

CYBG Group continues to develop and invest in its digital platform, utilising long standing customer relationships to gain critical insights for the successful deployment of its digital propositions via customer research and ongoing customer focus group engagement.

In October 2014, CYBG Group embarked on a three year programme to further digitise the customer experience for retail and SME banking and to provide improved solutions for customers to manage their finances. CYBG Group expects the initiatives to not only result in fast and easy access to telephone and remote screen sharing support alongside more integrated mobile, online and branch services, but to also allow services to be tailored to individual customers.

As part of this programme, CYBG Group plans to launch "B", an innovative and intuitive customer-centric digital proposition. B is currently live, with staff and non staff users (approximately 500 as at 31 December 2015). CYBG Group plans to publicly commence launch in early 2016 via a fully integrated advertising campaign that will leverage the benefits of digital and social media channels.

CYBG Group developed B following engagement with more than 10,000 customers, 250 members of staff and over 50 research sessions. B will introduce functionality designed to put customers in control of their finances and spending habits. This functionality includes providing narratives to engage customers with their finances, analysis of

customers' spending behaviour and both automatic and/or personalised categorisation of customer spending. CYBG Group has designed B based on how customers have said they want to engage with their bank in order to deliver a more personalised and relevant service. CYBG Group has developed B to operate on a best-in-class digital platform for use on mobile devices and tablets, which will be supported by a dedicated telephony and video conferencing team, together with the existing branch network, with selective branches being further digitised to provide support. B is built on a modern architecture, which is designed to be scaled in order to accommodate projected demand requirements. In connection with the development of B, CYBG Group has implemented an analytics platform alongside the Digital Next Best Action ("**DNBA**") data and analytics capability discussed below, which will capture data for all retail customers. Cyber security for B employs a tiered security level model, including device bonding, security codes as well as "step up" passwords for high value payments. B will complement CYBG Group's existing suite of brand propositions with Clydesdale Bank and Yorkshire Bank and will carry the endorsement of the CYBG Group brands.

CYBG Group intends for B to be an important part of its omni-channel delivery and current account growth strategy, driving efficiency, process simplification and customer acquisitions. The strategic foundations developed by B have been designed to enable CYBG Group to simplify its consumer lending account opening processes, both for the public and secure websites, which should contribute to the growth of personal loan and credit card balances. B is expected to appeal to a younger, more affluent demographic who may have little or no association with the CYBG Group brands, as well as CYBG Group's traditional customer base. During 2015, CYBG Group conducted an online survey of existing Clydesdale Bank and Yorkshire Bank customers as well as non-customers outside of the core regions to market test B in advance of its launch. The focus group consisted of approximately 500 respondents over 23 years of age, with approximately 73 per cent. aged under 55. Of the existing Clydesdale Bank and Yorkshire Bank customers surveyed, there was a mix of main and secondary current account customers. During the 2015 trial period, 40 per cent. of the total focus group would feel more positively towards Clydesdale Bank and Yorkshire Bank if B was offered and, among likely users of B, this portion increased to 87 per cent. Additionally, this study found that B would boost perceptions of Clydesdale Bank and Yorkshire Bank in areas of innovation and modernity, which have not traditionally been areas of strength.

CYBG Group recognises the importance of continued investment in its IT platform alongside delivery of its digital-led customer propositions. CYBG Group has investments planned over the next three years to ensure that its IT platform remains compliant and maintains its systems currency within its risk appetite. CYBG Group also seeks to refresh its online SME platform, with initiatives such as the "Connected to You" proposition, which is expected to be launched during financial year 2016-2017 to focus on meeting the needs of micro business customers and Business Direct customers.

3.2.2 *Branch network optimisation*

CYBG Group believes that face-to-face service delivered through local branches remains an important consideration for some customers whilst the branch footprint needs to evolve to reflect how and where customers want to conduct their banking business. CYBG Group commenced a programme in 2015 to reshape and optimise its physical network. This investment programme over five years includes:

- Creating larger concept stores in key city locations, which as at November 2015, comprised London, Glasgow, Aberdeen, Sheffield and Leeds (which opened in November 2015), that bring together Retail and SME banking expertise, reduce customer service wait times, integrate with online and direct channels and provide greater front-office support for more complex transactions; another concept store, to be located in Edinburgh, is planned to be opened during financial year 2017;

- Integrating business and private banking centres with retail branches to provide additional opportunities for customers to access a full range of services in a single location; as at September 2015 there were 28 co-located centres, having executed five co-locations, with an additional three co-locations planned during financial years 2016 and 2017; and
- Ongoing activity to ensure branch locations match customer demand, which may result in selected branch closures and possible relocations.

3.2.3 *Develop enhanced customer data management and analytics*

Enhanced customer data management and analytics are key to the delivery of a consistently superior experience to CYBG Group's customers. Being able to provide customers with a seamless omni-channel experience requires an aggregated and up-to-date view on the customer accounts, their activity across those accounts and a strong understanding of their lifecycle of customer activity. Through this data and supported by analytics capabilities, CYBG Group seeks to provide insights to customers and enable them to manage their finances more effectively, and by developing predictive capabilities, anticipate potential future financial needs.

In May 2015, CYBG Group launched DNBA in retail internet banking, a customer data and analytics capability intended to support the delivery of an enhanced customer experience. DNBA enables full personalisation and optimisation of messages delivered to its retail banking customers and allows CYBG Group to manage customer messaging within a framework which tracks customer digital engagement across channels, recognising the interaction of multiple messages across channels. This functionality enables CYBG Group to deliver a highly relevant, personalised and event-led experience to each customer and increases opportunities to cross sell other products that are relevant to a particular customer based on that customer's transactions within the digital platform. CYBG Group's DNBA solution leverages CYBG Group's existing channels and reacts to channel demand in real time. CYBG Group has launched its DNBA solution for retail internet banking with plans to continue to incorporate it across customer interactions via its new digital platform, branches, telephone, customer statements, email, SMS and direct mail. Using the DNBA platform, CYBG Group will increase its annual message opportunities to customers from 20 million using traditional marketing platforms to approximately 500 million per annum over the next five years assuming all distribution channels become integrated into DNBA. CYBG Group estimates that the marginal costs of messages using the DNBA platform will be approximately £0.01 per message (based on estimated total cost of ownership of the DNBA system over five years and estimated message volumes), compared to £0.50 for a traditional direct marketing pack, which should enable CYBG Group to achieve deeper customer relationships at lower marginal costs. As at 30 September 2015, DNBA had delivered more than 40 million targeted messages, of which approximately six thousand of customers receiving messages visited a product related page per week.

3.3 ***Reduce costs through a broad-based simplification and productivity agenda as well as rigorously targeted investment spend***

CYBG Group intends to make ongoing targeted improvements in its operating model to realise efficiencies, streamline its operations and simplify key service and fulfilment processes. These improvements are designed to enhance customers' experiences, reduce costs and support CYBG Group's ability to achieve significant operating leverage in tandem with the growth of the business. CYBG Group's targeted investment in its growth plan and system resilience will bring closer alignment of CYBG Group's investment spend to the overall strategic agenda.

CYBG Group's rigorous approach to cost control will target specific areas in the near term for reduction, including platform costs, headcount reductions and restructuring across the business. CYBG Group is currently undertaking a number of simplification initiatives that are intended to result in sustained improvement in CYBG Group's cost position, including:

- Migrating towards a more integrated and digitised distribution model with an efficient and aligned approach to servicing both retail and SME banking customers. CYBG Group plans to develop this model over time by restructuring its distribution network and optimising its footprint to align with customer needs based on feedback from various pilot programmes. Operating model and efficiency initiatives are underway, including the continued optimisation of the branch network;
- Continuing to review and assess non-customer facing activities as a proportion of the total cost base, with further cost reductions under consideration; and
- Automating certain credit decisions, business capabilities and end-to-end processes to improve customer experience and efficiencies, including:
 - for mortgages: introduction of new processes and systems to improve communications as well as the customer experience such as "approval in principle", reducing interview time from 90 minutes to 60 minutes and reducing the average time from application to approval by 50 per cent.,
 - for PCAs: online account opening capabilities (which improves from a prior service time of 40 to 60 minutes in branch, with accounts opened the next day, or 20 to 40 minutes to open an account by telephone, with accounts opened 7 to 10 days later, to approximately 15 minutes to open an account online that is usable immediately),
 - for BCAs: account opening capabilities (which improved from accounts opening 14 days later to accounts opening 4 days later), and
 - reduce system touch points by 60 per cent and internal effort per loan by 25 per cent.

CYBG Group is implementing these measures in a manner consistent with its risk management practices.

4. **Banking Activities**

4.1 ***Retail Banking***

CYBG Group has a comprehensive regional and national retail banking product proposition, serving 2.6 million customers. CYBG Group's personal deposit portfolio was £17.5 billion as at 30 September 2015, comprising PCAs (39.7 per cent. of the total portfolio), variable rate savings accounts (34.4 per cent. of the total portfolio) and fixed rate term deposits (25.9 per cent. of the total portfolio). As at 30 September 2015, 83 per cent. of variable rate savings account and fixed rate term deposit customers were located in CYBG Group's core regions, compared to 86 per cent. of PCA customers.

CYBG Group's retail loan portfolio was £21.7 billion as at 30 September 2015, comprising of mortgages (94.4 per cent. of the total portfolio), personal loans (3.5 per cent. of the total portfolio) and credit cards and overdrafts (2.1 per cent. of the total portfolio).

4.1.1 *Current Accounts*

CYBG Group had approximately 1,819,000 PCA customers as at 30 September 2015. 34 per cent. of CYBG Group's PCA customers also held savings accounts with CYBG Group, 14 per cent. held CYBG Group credit cards and 7 per cent. held mortgages with CYBG Group.

4.1.2 *Savings accounts*

As at 30 June 2015, CYBG Group had approximately 1,378,000 personal variable rate savings account customers and personal fixed rate term deposit customers and £6,013 million of personal variable rate savings account deposits.

4.1.3 *Term deposits*

As at 30 September 2015, CYBG Group had £4,519 million of personal fixed rate term deposits, with an average deposit balance per customer of £24,400. Term deposits (sometimes referred to as "fixed rate savings accounts" or "time deposits") offer a fixed interest rate for a fixed term. CYBG Group also offers fixed rate cash ISAs.

In 2011, following a credit rating downgrade, CYBG Group experienced a reduction in short-term wholesale funding. CYBG Group was able to successfully attract additional fixed-rate term deposits at market rates, the majority of which matured in 12 or 24 months, in order to address this reduction in wholesale funding. Subsequently, CYBG Group undertook actions to grow PCA and retail savings balances as well as managing down the volume of fixed-rate term deposits from £6,603 million as at 30 September 2012 to £4,519 million as at 30 September 2015. These actions have enhanced the structure and stability of CYBG Group's retail deposit base as well as reducing the overall funding costs.

4.1.4 *Mortgage lending*

As at 30 June 2015, CYBG Group had 233,000 retail mortgage customers, with 59 per cent. of mortgage balances outside of the core regions and an average mortgage balance per customer in the portfolio of £194,000. CYBG Group successfully increased its mortgage portfolio from £13,981 million as at 1 October 2011 to £18,444 million as at 30 September 2014 and £20,504 million as at 30 September 2015 (of which 68.7 per cent. were owner occupied mortgages and 31.3 per cent. were buy-to-let mortgages). CYBG Group has recorded growth in mortgage balances in excess of the UK market as a whole, with a compound annual growth rate of 10.1 per cent. in mortgage balances in the period from 30 September 2012 to 30 September 2015 versus 1.4 per cent. for the UK market as a whole over the same period (*Source: Bank of England*). Mortgage lending in the UK remains a strategic priority for CYBG Group, with a significant portion of CYBG Group's net interest income derived from interest received on its mortgage portfolio.

CYBG Group requires all mortgage loans to be fully secured by way of a first ranking charge on the residential property to which the mortgage loan relates on terms that allow for the repossession and sale of the property if the borrower fails to comply with the terms of the loan. CYBG Group provides mortgage loans on a capital repayment basis, where the loan is required to be repaid during its life, and on an interest-only basis, where the customer pays interest during the term of the mortgage loan with the principal balance required to be repaid in full at maturity.

The primary source of gross new mortgage loan origination for CYBG Group for the three years ended 30 September 2015 has been the intermediary channel. The following table sets out CYBG Group's gross new mortgage lending by distribution channel for the periods indicated.

	Year ended 30 September			
	2015	2014	2013	2012
	(£m)			
Intermediary.....	3,658	3,633	2,169	2,061
Proprietary ⁽¹⁾	1,277	1,293	933	1,070
Gross new mortgage lending.....	<u>4,935</u>	<u>4,925</u>	<u>3,102</u>	<u>3,131</u>

⁽¹⁾ Proprietary refers to direct lending (not through an intermediary). This includes lending through branch and private bank channels.

CYBG Group intends to continue to develop its intermediary broker network in order to further diversify its mortgage portfolio geographically, and make use of its digital platform and branch network in its core regions.

CYBG Group has established a proprietary and direct mortgage origination capability pursuant to which 171 dedicated mortgage specialists interact with new and existing customers using CYBG Group's branch network, the internet or telephone and handle queries from customers through the proprietary channels. CYBG Group's direct and branch network advisers are managed as one team, with the number of advisers determined by capacity and customer need; staffing needs are reviewed in line with anticipated customer demand on an ongoing basis. CYBG Group utilises Yorkshire Bank branded mortgage products throughout Yorkshire and Northern England and Clydesdale Bank branded mortgage products in the remainder of the English and all of the Scottish markets as well as for all of CYBG Group's intermediary mortgage lending.

(a) *Composition by type – owner-occupied and buy-to-let*

CYBG Group offers both owner-occupied mortgage loans (pursuant to which the borrower is the owner and occupier of the mortgaged property) and buy-to-let ("BTL") loans (pursuant to which the borrower intends to let the mortgaged property). BTL gross new mortgage lending has increased from 17 per cent. of total gross new mortgage lending for the year ended 30 September 2012 to 27 per cent., 38 per cent. and 43 per cent. for the years ended 30 September 2013, 2014 and 2015, respectively (percentages are calculated excluding the unknown amounts). As at 30 September 2015, the average buy-to-let loan balance per account was £169,633.

CYBG Group's owner-occupied mortgage portfolio consists primarily of mortgage loans to individuals secured by a first charge on residential properties located in the UK. CYBG Group does not provide second charge mortgages.

CYBG Group originates BTL mortgages in the UK via mainstream and specialist intermediaries. The BTL segment comprises secured lending on property for investment purposes, including residential investment property, with a focus on lending to medium net worth clients looking to diversify their investments, with a main applicant average income for BTL loans of £104,000 as at 30 September 2015, compared to £102,000 for the six months ended 31 March 2015. CYBG Group estimates that as at 30 September 2015, 74 per cent. of its BTL borrowers could afford their mortgages with no recourse to rental income in a stressed scenario. For the year ended 30 September 2015, 67 per cent. of the total BTL portfolio had a rental cover of 150 per cent. or higher.

As at 30 September 2015, 31.3 per cent. of CYBG Group's outstanding mortgage balances, or £6,418 million, were BTL loans. Of this amount, £5,663 million were interest-only loans. The following table sets out a breakdown of CYBG Group's BTL new mortgage approvals for the year ended 30 September 2015 by borrower type:

	Value (£m)	% of BTL new mortgage approvals by value
Investor	1,482	59
Let-to-buy	776	31
Occasional	273	11
Professional (3+ properties)	2	0

As part of its ongoing risk management, CYBG Group limits the number to three properties on which it will lend to BTL landlords, with the additional exposure to landlords holding three or more properties in the table above reflecting historical risk policies. In addition, CYBG Group has a conservative approach to BTL loan origination with interest-only BTL mortgages currently limited to a maximum LTV ratio of 75 per cent. and capital repayment BTL mortgages currently limited to a maximum LTV ratio of 80 per cent.

CYBG Group's BTL mortgage products take the same form as its owner-occupied mortgage lending, such as fixed and variable rate mortgages.

(b) *Composition by repayment type*

Customers with repayment mortgages are required to make payments of both interest and capital, usually on a monthly basis. Customers with interest-only mortgages are required to make payments of interest, usually on a monthly basis, with the capital required to be repaid at maturity. Interest-only mortgages are not available through retail channels, but are available to private and business-to-business customers through the intermediary channel. Interest-only loans are generally interest-only for the full mortgage term. For fixed-rate loans, the pricing will revert to CYBG Group's standard variable rate after the fixed-rate period expires. Private and business-to-business interest-only loans are restricted to borrowers with income over a certain threshold (£75,000 sole/£100,000 joint).

The following table sets out the composition of mortgages by repayment type and product type as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	(£m)			
Owner occupied:				
Capital repayment.....	9,919	9,330	8,069	7,264
Interest-only	4,167	4,201	4,575	5,001
	<u>14,086</u>	<u>13,531</u>	<u>12,644</u>	<u>12,265</u>
Buy-to-let:				
Capital repayment.....	755	706	572	506
Interest-only	5,663	4,207	2,932	2,598
	<u>6,418</u>	<u>4,913</u>	<u>3,504</u>	<u>3,104</u>
Total	<u>20,504</u>	<u>18,444</u>	<u>16,148</u>	<u>15,369</u>

(c) *Composition by interest rate basis*

CYBG Group offers fixed rate and variable rate mortgage loans. Fixed rate mortgage loans give the customer certainty in relation to the amount of interest payable on a monthly basis for the duration of the fixed-rate term. Variable rate mortgage loans provide for a variable payment with interest rates moving with changes in interest rates generally, often linked to changes in the Bank of England base rate.

Fixed rate mortgage loans have a set interest rate for an initial pre-determined period, after which the interest rate reverts to a variable interest rate until the mortgage term expires. CYBG Group offers fixed-rate mortgage loans, with terms of two or five years, with three-year fixed-rate loans also available to first-time buyers.

Variable rate mortgage loans are available with a concessionary discount period with or without offset functionality. The offset allows customers to link a current or savings account to the mortgage and instead of earning interest on the account, the balance on the account is set against the mortgage principal in order to reduce the interest payable. Included within the variable rate mortgage portfolio are CYBG standard variable rate ("**SVR**") mortgages. CYBG Group's standard variable rate was 4.95 per cent. for owner-occupied and 5.35 per cent. for BTL as at 30 September 2015. The SVR mortgage book balance as at 30 September 2015 was £3,081 million with an average yield of 4.96 per cent. Fixed rate mortgage products revert to the SVR rate at the end of the fixed interest rate period. The reversion of mortgages onto an SVR rate as well as

repayments and refinancings result in regular changes to the overall SVR mortgage book balance. Movements in the overall SVR mortgage book balance in the year ended 30 September 2015 were not material in the context of the overall mortgage book.

Tracker rate mortgages bear a variable rate of interest directly linked to the Bank of England base rate, i.e. base rate plus a fixed percentage margin. Whilst the rate is variable, the terms under which the rate can vary are restricted. Rates are linked to the Bank of England base rate for the life of the mortgage. CYBG Group has a historic portfolio of tracker rate mortgages which were withdrawn from general sale in 2008; as at 30 September 2015 new tracker mortgages were offered on a limited basis to CYBG Group employees.

The following table sets forth the composition of CYBG Group's mortgage portfolio by product type as at the dates indicated.

	As at 30 September	
	2015	2014
	(£m)	
Mortgages:		
Fixed rate	12,710	9,454
Variable rate	5,169	6,124
Tracker	2,625	2,866
Total mortgages	20,504	18,444

(d) *Regional distribution of mortgages*

CYBG Group has a diversified portfolio of secured mortgage exposures across the United Kingdom. With the exception of Scotland and North England, the regional distribution of CYBG Group's mortgages is broadly in line with the distribution of mortgage volumes across the UK banking industry generally. The relative concentration of mortgages in Scotland and North England reflects the bank's historic footprint.

The following table sets out information on the regional distribution of CYBG Group's mortgages as at 30 September 2015 by value and as a percentage of CYBG Group's total portfolio. As the table indicates, CYBG Group has a diversified mortgage book, with significant exposures in South England as well as its core regions of Scotland and North England, with 59.0 per cent. outside of the core regions.

	As at 30 September 2015	
	Value (£m)	% of CYBG Group's mortgages
South England	9,842	48.0
North England	4,921	24.0
Scotland	3,486	17.0
Midlands (England)	1,435	7.0
Other UK	820	4.0
Total	20,504	100.0

(e) *LTV ratios*

The average LTV ratio of CYBG Group's mortgage lending, coupled with the relationship of the debt to customers' income, are key metrics in determining the credit quality of these loans. The following table below sets out the indexed LTV analysis of CYBG Group's mortgages as at 30 September 2015.

As at 30 September 2015			
	Owner occupied	Buy-to-let	Total
Less than 50%	39	24	34
50% to 75%	43	69	51
76% to 80%	7	2	5
81% to 85%	5	1	4
86% to 90%	2	1	2
91% to 95%	1	0	1
96% to 100%	0	0	0
Greater than 100%	0	0	0
Unknown ⁽¹⁾	3	3	3
Total	100	100	100
Average LTV:			
Stock of mortgages (Indexed) ⁽²⁾	54.5%	57.2%	55.3%
Stock of mortgages (at origination) ⁽³⁾	64.7%	68.4%	65.5%
New lending ⁽⁴⁾	70.4%	67.7%	69.7%

(1) Represents portion of portfolio where data is currently unavailable.

(2) Average indexed LTV is weighted by balance.

(3) Average LTV at origination is based on LTV calculation without any weighting.

(4) Average new lending LTV is based on LTV calculation without any weighting and is based on one month's approvals (March) only.

During the years ended 30 September 2015, 2014, 2013 and 2012, the average indexed LTV of CYBG Group's mortgage portfolio has reduced to 55.3 per cent. as at 30 September 2015, compared to 58.8 per cent. as at 30 September 2014, 63.5 per cent. as at September 2013 and 66.6 per cent. as at September 2012.

The percentage of the front book mortgage portfolio with an LTV ratio below 80 per cent. was 76 per cent. and 77 per cent. for the years ended 30 September 2015 and 2014, respectively.

The average mortgage loan-to-income ratio at origination without any weighting for gross new mortgage lending was 2.65 times income and 2.66 times income for the years ended 30 September 2014 and 2015, respectively.

4.1.5 Underwriting

In line with peers, CYBG Group primarily uses automated credit decision tools to support its mortgage underwriting services, supplemented by a robust manual underwriting process. All mortgages are processed through the automated decision tool, which considers information from the applicant, a credit rating agency and, for existing customers, information related to banking patterns. The automated system then decides whether an application is accepted, declined or referred for a manual credit assessment. A refer decision will result in a referral to manual underwriters while a decline decision can be referred to manual underwriters at the discretion of the mortgage adviser. In addition to the use of automated decision tools, all loans over £500,000 require a manual assessment. All manual credit decisions are made using objective criteria by accredited underwriters (of which there were 45 with an average of 22 years of banking experience as at 30 September 2015).

CYBG Group's underwriters use various types of information in reaching their decision including: credit rating agency data, external and internal credit history, financial position information, and information on stability and type of employment. The review also involves an assessment of a customer's ability to afford and repay any borrowing, including under stressed conditions, prior to any lending decision. The underwriter has the authority to approve applications in line with CYBG Group's credit policies and procedures. By combining automated credit decision strategies with manual underwriting and judgment, CYBG Group is able to offer common sense and bespoke solutions for specific customer segments. This is particularly useful for clients who may

have a compensation structure that makes it difficult to calculate their future income levels.

CYBG Group requires all mortgage loans to be fully secured by way of a first ranking charge on the mortgaged property, to ensure that its claim to the property, in the event of default, is senior to those of other potential creditors.

CYBG Group does not offer mortgages to borrowers who self-certify their income or who have adverse credit histories and conducts affordability stress testing on its mortgages using a stressed interest rate of 7.45 per cent. as at 30 September 2015.

CYBG Group originates new mortgage loans in accordance with its defined risk appetite, which is agreed by the Board and the management team. CYBG Group has established a number of risk appetite parameters designed to ensure the portfolio contains a level of risk that is viewed as acceptable and that mortgages are affordable for customers. These risk appetite parameters include:

- limited appetite for non-standard products, as CYBG Group is primarily focused on mainstream retail owner-occupied and buy-to-let mortgages;
- geographic and product concentration caps;
- LTV and loan-to-income thresholds (including restrictions imposed by the FPC regulations); and
- Residential interest-only lending portfolio is limited to a specified percentage of the portfolio and to borrowers with a minimum property value of £400,000 and a maximum age at maturity of 70 years; in 2013, residential interest-only lending was restricted to sale through two channels only (intermediary brokers and private banking).

4.1.6 *Financial Care Team*

The Financial Care team supports and manages retail banking customers in financial difficulty; their primary goal is to identify affordable and sustainable solutions for customers. The Financial Care Team, supported by the Customer Banking Operations team, is part of CYBG Group's customer-centric approach which utilises a variety of support strategies, including consideration of temporary concessions or permanent contract changes. Referral into the Financial Care Team is an automated process and they utilise a variety of methods to communicate with customers. In certain cases solutions will include asset sales or litigation.

The following table sets out a breakdown of retail delinquent debt under the management of the Financial Care Team as at 30 September 2015.

	As at 30 September 2015
	Debt by type
	%
Secured <90 DPD	36
Unsecured <90 DPD	6
Secured 90+ DPD	34
Unsecured 90+ DPD	24
Total	100

As at 30 September 2015, total delinquent unsecured and secured retail debt under the management of the Financial Care Team was £416 million and comprised 62,273 accounts.

4.1.7 *Unsecured Personal Lending*

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

CYBG Group's unsecured lending portfolio had an average personal loan balance per customer of £6,800 as at 30 September 2015. The following table sets out a breakdown of CYBG Group's unsecured personal lending balances as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	(£m)			
Unsecured personal lending:				
Personal loans.....	763	824	756	730
Credit cards.....	376	364	396	436
Overdrafts.....	79	94	122	144
Total unsecured personal lending	1,218	1,282	1,274	1,310

4.1.8 *Payment and Merchant Services*

CYBG Group's payment services to retail customers include prepaid cards (including Clydesdale Bank/Yorkshire Bank cash passport currency cards, Clydesdale Bank/Yorkshire Bank prepaid cards, credit union prepaid cards, and Post Office travel money plus prepaid cards). Clydesdale Bank/Yorkshire Bank merchant services is enabled by Worldpay UK Limited and enables businesses to accept credit and debit card payments. These merchant services are available to business and private banking customers.

4.1.9 *Insurance*

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

4.2 **SME Banking**

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

4.2.1 *Relationship Management Based Operating Model*

CYBG Group's business and private banking services are built upon a relationship management model, providing customers with access to a relationship manager, with wide banking knowledge and access to a network of sector specialists, committed to helping the customer meet their banking needs and financial requirements.

4.2.2 *Customers*

CYBG Group offers a full range of SME banking products and services to approximately 179,000 SME businesses as at 30 September 2015, comprised of the following:

- micro businesses (which CYBG Group defines as businesses with no lending outstanding and turnover of less than £120,000, constituting approximately 55 per cent. of business customers),

- Business Direct (which CYBG Group defines as businesses with outstanding lending of less than £0.1 million and turnover of less than £750,000, constituting 29 per cent. of business customers and 10 per cent. of CYBG Group's total revenue for the business and private banking segment),
- small businesses (which CYBG Group defines as businesses with lending of £0.1 million to £0.25 million and greater than £750,000 but less than £2.0 million in turnover, constituting 4 per cent. of business customers and 6 per cent. of CYBG Group's total revenue for the segment) and
- commercial businesses (which CYBG Group defines as businesses with lending of higher than £0.25 million and greater than £2.0 million in turnover, constituting 13 per cent. of business customers (including 1,430 specialist and acquisition finance customers and 3,404 national business solutions customers) and 84 per cent. of CYBG Group's total revenue for the segment).

Across all business segments, CYBG Group provides working capital solutions to business customers through asset finance, invoice finance, international trade, merchant acquiring and treasury solutions.

4.2.3 *Private banking*

CYBG Group offers private banking customers a wide variety of products such as current accounts (with or without travel insurance cover), savings products (including cash ISAs and term deposits), discounted mortgages, branded credit cards, asset finance as well as a wealth management referral to a Origen Financial Services adviser and access to foreign exchange solutions.

4.2.4 *Business Lending*

CYBG Group offers SME customers a full range of business lending products and services designed to meet their needs.

CYBG Group is focussed on returns through balance sheet optimisation including the managed run-off of low-yielding assets. Taking into account the transfer of £5.7 billion of predominantly CRE assets and associated loans net of provisions to NAB in 2012, CYBG Group has reduced its business lending book from £16.5 billion as at 30 September 2012 (inclusive of the legacy CRE portfolio) to £7.1 billion as at 30 September 2015. In addition to the transfer of the legacy CRE portfolio, drivers of the reduction include a change in risk appetite away from sectors displaying weak performance, refocusing the business on SME customers and the additional run-off of £1.1 billion of low-yielding business loans by 2019.

In making business lending decisions, CYBG Group focuses on, among other things, the sustainability of customer earnings and cash flow as the primary credit consideration with asset security as a secondary credit consideration.

CYBG Group maintains a diversified business lending portfolio with limited single exposure concentrations, where the top 20 customers accounted for only 9 per cent. of total business lending in the year ended 30 September 2015. The following table sets out the breakdown of CYBG Group's business lending portfolio by sector as at the dates indicated.

	As at 30 September	
	2015	2014
	(£m)	
Agriculture (soft commodities).....	1,694	1,766
Retail and wholesale trade	810	981
Business services.....	735	831
Government, health and education.....	772	848
Manufacturing	679	788
Hospitality	601	745

	As at 30 September	
	2015	2014
	(£m)	
Commercial real estate	504	562
Entertainment and personal services	317	400
Transport and storage	279	320
Construction	194	193
Other	476	536
Total	7,061	7,970

The following table sets forth a breakdown of CYBG Group's gross new facilities accepted and available to customers for the year ended 30 September 2015.

	For the year ended 30 September 2015		
	New customers	Existing customers	All customers
	(£m)		
Agriculture (soft commodities)	70	234	304
Retail and wholesale trade	55	241	296
Business services	80	230	310
Government, health and education	153	79	232
Manufacturing	73	175	248
Hospitality	37	22	59
Commercial real estate	53	19	72
Utilities, post, telephony	41	36	77
Transport and storage	11	71	82
Finance	41	42	83
Other ⁽¹⁾	22	150	172
Total	636	1,299	1,935

⁽¹⁾ Other includes resources, entertainment and personal services and construction.

For the year ended 30 September 2015, total facilities accepted and available to customers for term lending was £923 million.

For the year ended 30 September 2015, total facilities accepted and available to customers for overdraft lending was £430 million, asset finance lending was £404 million, invoice finance lending was £169 million and treasury and trade finance lending was £10 million.

4.2.5 Business Current Accounts & Deposits

As at 30 September 2015, CYBG Group had an estimated 1.4 per cent. share of BCA balances in the UK, with a total BCA balance of £6.0 billion (*Source: Bank of England*). CYBG Group has increased the number of BCA accounts opened from 2,161 new accounts during the first quarter of financial year 2015 to 2,529, 3,647 and 4,311 in the second, third and fourth quarters of financial year 2015, respectively.

4.2.6 Underwriting

CYBG Group's cash flow based business lending underwriting process is largely manual due to the diverse nature of business customers. The majority of the decisions are made by the independent credit underwriter following a request from the front line relationship manager. CYBG Group separates its relationship managers and credit assessment processes to ensure decisions are reached independently. For certain assets, the underwriting is undertaken by a limited number of credit managers with particular sector experience, such as agriculture and specialist and acquisition finance. CYBG Group's business underwriting expertise is delivered by a team of 41 dedicated staff with an

average of 22 years of banking experience. CYBG Group continues to focus on enhancing underwriting staff expertise, with training and accreditation requirements established and tracked as a requirement of retaining delegated authority. The team also conducts "lessons learned" briefings for front line relationship managers and credit underwriters. The majority of business credit applications are submitted through CYBG Group's business lending platform and are subject to a joint sign-off process between the front line relationship manager and the credit underwriter reviewing the application. Higher loan amounts may require two underwriters or may be submitted to the credit committee for approval. CYBG Group assigns an electronic credit rating system ("eCRS") rating to all business customers with aggregate borrowings greater than £25,000.

4.2.7 *Strategic Business Services*

Strategic Business Services ("**SBS**") is a team within CYBG Group's risk management function, tasked with supporting business customers facing financial difficulty. SBS exercises pro-active management in order to pre-empt issues and maximise recoveries as appropriate, including the use of forbearance when appropriate to a customer's situation. Specialist teams within SBS manage turnaround, insolvency and complex cases (including multi-bank positions). CYBG Group is focused on introducing loans to SBS as early as possible to ensure appropriate action is taken.

CYBG Group's business lending portfolio is split between non-categorised and categorised assets. Non-categorised assets are managed by the business relationship managers and are subject to annual review by credit officers. Categorised assets have been identified as representing heightened risk and are managed by SBS. All forbore business lending (except on commercial terms) is managed by SBS and classified as categorised. Assets are referred to SBS based on several factors, including a categorised asset checklist, daily or weekly excess lists, eCRS movement, deteriorating trends and identification of any covenant breaches. All business loans that are 90 days past due must be referred to SBS; as at 30 September 2015, only 4 per cent. of the categorised assets were 90 or more days past due. When a business customer in financial difficulty is referred to SBS, SBS takes control of the credit strategies however the relationship manager remains involved to ensure continuity of relationship and to retain close involvement in any commercial negotiations.

Categorised assets are divided into three categories:

- "watch" reflects assets that have adverse factors which if not reversed, will result in the customer being unable to meet its obligations;
- "in default" refers to loans with an eCRS rating of 98 (in default but no loss expected); and
- "impaired assets" refers to loans with an eCRS rating of 99 where a loss event has been recognised by the raising of a specific provision and/or interest no longer being taken to profit or "restructured loans" which refers to loans where the original terms have been amended following a loss event.

CYBG Group has taken a prudent approach to SBS classifications. As at 30 September 2015, £1.0 billion or 14.3 per cent. of total business lending was classified as categorised (3.8 per cent. as defaulted and 10.5 per cent. as watch), compared with 15.6 per cent. as at 30 September 2012 (4.8 per cent. defaulted and 10.8 per cent. watch, excluding the legacy CRE portfolio), or 24 per cent. of the total business lending including the legacy CRE portfolio, 17.8 per cent. as at 30 September 2013 (5.6 per cent. defaulted and 12.2 per cent. watch) and 18.3 per cent. as at 30 September 2014 (5.4 per cent. defaulted and 12.8 per cent. watch).

As at 30 September 2015, the amount of each type of categorised loan had declined from prior periods. The following table sets out the composition of CYBG Group's categorised business loan portfolio by type as at the dates indicated.

As at 30 September					
	2015	2014	2013	2012 (excluding CRE)	2012 (including CRE)
	<i>(£bn)</i>				
Watch loans.....	0.7	1.0	1.1	1.2	2.3
Defaulted (including 90+ DPD)	0.1	0.2	0.2	0.1	0.4
Impaired	0.2	0.3	0.3	0.4	1.2
Total categorised business lending.....	1.0	1.5	1.6	1.7	3.9

4.2.8 Other Products & Services

CYBG Group also offers its business customers a range of other business banking products such as treasury services (e.g., interest rate risk management, commodities risk management, foreign exchange risk management, and money market deposits) and funding of professional indemnity insurance.

5. Distribution Channels

CYBG Group provides its products and services through an omni-channel distribution platform. CYBG Group's comprehensive distribution capability offers a product set aligned to its customers, as set forth in the retail product proposition breakdown by channel below for the year ended 30 September 2015.

Customer Channel	PCAs	Savings ⁽³⁾	Credit Cards	Mortgages	Personal Loans
	% of total new accounts opened		% of total gross new lending		
Branch network.....	81%	82%	37%	14%	39%
Intermediary	n.a.	n.a.	n.a.	74%	n.a.
Digital ⁽²⁾	4% ⁽¹⁾	11% ⁽¹⁾	53%	3% ⁽¹⁾	41%
Telephony	15%	7%	10%	10%	19%
Total accounts opened (in thousands)/ total gross new lending (in £ billion)	85k	97k	34k	£4.9	£0.3

⁽¹⁾ Online form and post.

⁽²⁾ Includes aggregators.

⁽³⁾ Includes term deposits, cash ISAs and instant access accounts

5.1 Branch Network

As at 30 September 2015, CYBG Group has 275 retail branches in the UK (89 per cent of which were located in the core regions), with 2,834 FTEs, including over 1,000 tellers and approximately 125 mortgage specialists. CYBG Group conducted approximately 18 million teller transactions in its branches and approximately 21.9 million account maintenance requests in the year ended 30 September 2015.

CYBG Group's branch network is key to CYBG Group's ability to meet the needs of its customers in local communities and will continue to provide an important source of customer acquisition and deposit and asset growth. During the year ended 30 September 2015, CYBG Group opened 81 per cent. of its total PCA accounts, 37 per cent. of its total credit cards issued, 82 per cent. of its total savings accounts and generated 14 per cent. of its total gross new mortgage lending and 39 per cent. of its total new unsecured personal lending through its branch network.

CYBG Group has prioritised providing quality customer service throughout its branch network and has continued to improve the branch customer experience. As compared to 30 September 2013, 30 September 2014 and 31 August 2015, CYBG Group had improved its branch interview satisfaction from 95.2 per cent. to 95.6 and 96.8 per cent. respectively and the likelihood of its customers to recommend CYBG Group from 30.9 per cent. to 42.2 per cent. and 58.4 per cent., respectively (*Source: Gusto CEA reports*).

In addition to its branches, CYBG Group has arrangements in place for current account holders to access their accounts through the Post Office network, which has the effect of extending CYBG Group's footprint to over 11,800 additional locations on a national basis. At Post Office locations, CYBG Group customers can conduct banking transactions (including cash withdrawal, balance enquiry and cash deposit transactions), providing additional opportunities for in-person banking services to its customers.

5.2 *Business and Private Banking Centres and Customer Service Centres*

As at 30 September 2015, CYBG Group's physical network included 40 business and private banking centres, 28 of which are co-located with retail branches. CYBG Group's strategy of co-locating business and private banking centres with retail branches enables it to meet a wider range of customer product and service needs while achieving efficiencies across the network. CYBG Group also supports customer delivery via its four regional customer service centres.

5.3 *Mortgage Intermediaries*

CYBG Group has an eleven year track record with intermediary mortgage brokers and mortgage networks, with 65 per cent of its broker panel members having a relationship with CYBG Group for four years or longer. CYBG Group's "invitation only" broker panel had a membership of 331 directly authorised brokers and network brokers as at 30 September 2015, with the top 10 brokers writing 34 per cent. of CYBG Group's gross new mortgage lending through intermediaries.

5.4 *Digital (internet & mobile)*

CYBG Group offers online and mobile banking to its customers which are the two fastest growing distribution channels for CYBG Group as measured by log-ons and transactions. CYBG Group has seen a notable increase in mobile application and digital usage.

CYBG Group's current mobile offerings to retail customers provide functionality comparable to its peers in the UK market. Capabilities include the ability to (i) view balances and recent transactions, (ii) transfer money between accounts, (iii) receive text alerts, (iv) make and receive internal and external payments, (v) transfer money via PAYM and (vi) locate a branch. CYBG Group also rolled out full PAYM capabilities in April 2015, which integrated into the existing mobile application to send and receive secure payments using just a mobile telephone number. Together with other banks and building societies, CYBG Group has committed to a multi-million pound investment programme to deliver this service and raise awareness in the market.

CYBG Group's retail internet offering is a robust in-house solution offering servicing solutions that expand upon what is offered through the mobile application. Automated and simplified online solutions are being introduced in response to customer needs and are expected to be launched during the next two financial years ending 30 September 2016 and 2017, including increased online current account functionality which provides online origination capability across products.

In addition to direct digital channels, CYBG Group has increased the use of aggregator channels with loans, mortgages, credit cards, PCAs and BCAs for both Clydesdale Bank and Yorkshire Bank brands marketed through 21 external websites as at 30 September 2015. CYBG Group has also increased social media usage into new assisted digital capabilities alongside the expected roll out of a video conference capability in branch and from home, increasing the use of co-browsing and screen-share technology.

5.5 *Voice*

CYBG Group provides retail telephony services via two principal contact centres in Clydebank and Kilmarnock in Scotland (the latter being outsourced to provide increased flexibility for call volumes) as well as two smaller centres in England to handle certain customer requirements. These centres support customers on both an inbound and outbound basis in a full range of account servicing and product sales activities, including non-voice activities such as web and social media. CYBG Group also provides SME customers with telephone support via the Business Direct channel, which services approximately 51,000 customers.

CYBG Group's telephony channel functions 24 hours a day, 365 days a year.

5.6 **ATMs**

CYBG Group continues to invest in its ATM network. As at 30 September 2015, CYBG Group held 894 ATMs (427 of which were Clydesdale Bank branded and 467 of which were Yorkshire Bank branded) in the CYBG Group network across the UK. In the period from June 2010 to February 2011, CYBG Group replaced over 540 ATMs. CYBG Group expects to introduce 100 new ATMs in 2015 as well as improvements for dispensing polymer notes.

6. **Employees and Operational Functions**

6.1 **Employees**

In the year ended 30 September 2015, CYBG Group had an average of 7,247 on and off payroll FTEs, including an average of 431 contractors and casual contracts primarily to supplement the permanent employee base within the operations and IT functions. As at 30 September 2015, 47 per cent. of CYBG Group business and private banking staff and approximately 50 per cent. of retail staff had more than ten years of banking experience with CYBG Group.

CYBG Group has implemented a number of changes to its organisational structure in order to streamline reporting lines and create specific teams to focus on key priority areas such as customer experience and conduct matters. The majority of these teams were transferred from retail banking areas. These changes include:

- Consolidation of a number of customer focused areas to create the Customer Experience and Marketing team in 2014 which focuses on customer service improvements. In 2014, 285 FTEs were transferred from retail banking to this team; and
- Creation of the Customer Trust and Confidence team in 2014 to provide greater focus on conduct issues, involving the transfer of 79 FTEs from retail banking and the recruitment of an additional 88 FTEs.

According to a 2015 CYBG Group employee engagement survey, 93 per cent. of employees replied favourably that they understood how to contribute to meeting the needs of customers, a one per cent. increase from 2014.

6.2 **Operational functions**

CYBG Group's operations units are based in Glasgow and Leeds with certain mortgage processing outsourced to Genpact Inc. CYBG Group's operations function has two main areas: (i) payments and cash services, comprising payments operations, industry and scheme liaison, note issuance and cash operations; and (ii) retail and lending services, which provides back office processing and administration for all product groups. Both service centres are low cost and can be flexed on demand to accommodate changing business and customer needs.

CYBG Group relies on third-party supplier relationships to provide certain services and maintain efficiency. CYBG Group has proven operating model flexibility in response to demand changes, with demonstrated performance against service level agreements (exceeding or fully meeting availability commitments both internally and externally for eight consecutive years, with average customer facing service availability of 99.91 per cent from 31 March 2015 to 30 September 2015) and quality targets through peaks and troughs, successfully managing variations in systems and capacity, origination fulfilment and ISA processing.

7. **Information Technology**

The IT business unit is based in Glasgow. IT is focused across two areas, providing day-to-day operational services and managing the overall IT systems landscape for CYBG Group, which is done through a combination of in-house developed applications, packages and externally hosted services. The IT business unit also contains the bank procurement team and is responsible for supplier management. CYBG Group's current operating platform reflects the successful integration of the Clydesdale Bank and Yorkshire Bank systems following the merger, reducing

cost and complexity of regulatory and mandatory change. Both retail and business front end applications are supported by a shared mainframe.

This team is based in Glasgow and is augmented by the use of various third-party providers, including IBM for certain technology services, BT for telecom services, Accenture and Syntel for outsourced application development and support services across a number of technology areas.

CYBG Group's existing structure is scalable to meet future demand, with recent investments in a new IBM mainframe, additional enterprise service bus (ESB) capacity, a major upgrade to the core banking lending platform and a replacement payments platform. This scalable payments platform provides a wide ranging suite of payments functionality. CYBG Group has also deployed new functionality in the mobile and digital arenas.

8. Relationship with NAB

This section describes the ongoing relationship CYBG Group will have with NAB following the Admission and, in particular, sets out operational details of the transitional services arrangements with NAB under the TSA and RTSA (as defined in "*Material Contracts—Transitional Services Agreement*" and "*Material Contracts—Reverse Transitional Services Agreement*").

8.1 Transitional Services Arrangements

In preparation for its separation from NAB, and operation on a standalone basis, CYBG Group has developed its own operational capabilities in certain functional areas including shareholder services and investor relations.

However, from separation, CYBG Group will continue to receive a range of banking operation services from NAB under the TSA on a transitional basis.

Each of the transitional arrangements agreed between CYBG Group and NAB under the TSA will be accompanied by a plan to migrate from the transitional arrangement to a CYBG Group standalone solution within a certain timeframe. It is intended that CYBG Group will have full standalone arrangements in place by 31 December 2018. The TSA services that are proposed to be provided by NAB to CYBG Group include:

- Risk (3-34 months) – processing of CYBG Group's data on NAB's credit risk engine to support regulatory reporting on credit risk weighted assets (including monthly calculations on both standardised and foundation IRB basis); liquidity, interest rate risk in the banking book, market risk management and reporting systems; maintenance and support services for customer rating and credit stress testing models, as well as data consolidation services for stress testing; calculation of credit economic capital, regulatory and economic operational risk capital; and lastly, technology support for the operational risk portal;
- Treasury (3-34 months) – access, infrastructure and application support to NAB's deal capture and processing systems for treasury transactions; operational support for confirmation, management of collateral, payment and settlement of transactions entered into by CYBG Group; maintenance of static data; premises (dealing room, infrastructure and desk space); and temporary housing of CYBG Group's London-based Treasury team. In addition, services to be provided include reporting from treasury platforms to support monitoring of market risk, non-traded market risk, liquidity and balance sheet risk, as well as access and support for the credit risk exposure management and reporting system;
- Human Resources (12 months) – technology support services for CYBG Group's human resources management system; and
- Finance (12 months) – technology and business support services for financial consolidation and reporting systems, as well as calculation of funding and credit valuation adjustments for CYBG Group's derivative portfolio.

For a summary of the contractual terms of the TSA, see "*Material Contracts—Transitional Services Agreement*", and for additional information on a range of potential risks in connection

with CYBG Group's reliance on service arrangements with NAB, see "*Risk Factors—Risks Relating to CYBG Group's Relationship with NAB*".

8.2 ***CYBG Group's support of NAB's London Branch***

As part of CYBG Group's operational separation from NAB, CYBG Group will provide certain operational support services to NAB's London branch under the RTSA. Each of the transitional arrangements agreed between NAB and CYBG Group under the RTSA are accompanied by a plan to migrate from the transitional arrangement to a NAB standalone solution within a certain timeframe. It is intended that CYBG Group will no longer be providing transitional services to NAB by 31 December 2018. The transitional services that are proposed to be provided by CYBG Group to support NAB's London branch are limited to technology services including hosting, data centre, domain name and network connectivity services in the UK.

8.3 ***Swaps***

NAB is intending to provide a third party clearing service to CYBG Group for central clearing of derivatives transactions (primarily swaps), in compliance with the clearing obligations under EMIR (which obligations are yet to come into force), through LCH.Clearnet Ltd. The clearing relationship is on an arm's length basis, and both CYBG Group and NAB utilise market standard third-party technology to support the clearing of trades and novation to LCH.Clearnet Ltd. It will be contracted under market standard documentation.

8.4 ***CRE loans***

Discussions are ongoing between NAB and CYBG Group about whether CYBG Group may repurchase specific CRE loans (up to approximately £250 million) within the legacy CRE portfolio previously disposed of to NAB where it may be appropriate for the customer relationship or to enable any disputes to be retained and managed directly by CYBG Group. Should any such repurchases proceed then NAB and CYBG Group currently intend that the relevant transfer agreements will be entered into and completed over the 12 months following the Demerger.

9. **Liquidity and Funding**

CYBG Group has a diversified funding mix, a strong base of predominantly lower-cost retail customer deposits, proven access to wholesale secured funding and limited reliance on short-term wholesale funding. CYBG Group has improved its funding position and reduced its funding costs in recent years by growing its lower-cost current account funding, which increased from £10.7 billion as at 30 September 2012 to £13.0 billion as at 30 September 2015, increasing its medium and long-term wholesale funding and reducing the volume of its more expensive fixed-rate term deposits. As at 30 September 2015, customer deposits of £26,349 million accounted for 83.6 per cent. of CYBG Group's funding base (defined as customer deposits, bonds and notes, amounts due to related entities and amounts due to other banks, which totalled £31,506 million at 30 September 2015).

The following table sets out a breakdown of total customer deposits as at each of the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Personal deposits⁽¹⁾				
Current accounts				
Interest-bearing demand deposits	6,865	6,426	5,840	5,420
Non-interest-bearing demand deposits	79	88	98	82
Total current accounts	6,944	6,514	5,938	5,502
Variable rate savings accounts	6,013	4,434	3,891	3,381
Fixed rate term deposits	4,519	4,412	5,231	6,603
	17,476	15,360	15,060	15,486
Business deposits:				
Current accounts				
Interest-bearing demand deposits	4,131	3,756	3,677	3,691
Non-interest-bearing demand deposits	1,907	1,761	1,589	1,555
Total current accounts	6,038	5,517	5,266	5,246
Variable rate savings accounts	1,777	1,731	1,870	1,853
Fixed rate term deposits ⁽²⁾	964	1,262	1,690	3,319
	8,779	8,510	8,826	10,418
Other wholesale deposits.....	94	119	380	624
Total customer deposits	26,349	23,989	24,266	26,528

⁽¹⁾ Personal deposits include deposits through private banking.

⁽²⁾ Business fixed rate term deposits include other financial liabilities at fair value.

9.1 *Liquidity*

CYBG Group undertakes a conservative approach to liquidity management by imposing internal limits, including limits based on stress and scenario testing, in addition to regulatory requirements. CYBG Group manages liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of CYBG Group and to enable CYBG Group to meet its financial obligations.

As at 30 September 2015, CYBG Group's liquidity coverage ratio ("**LCR**") was 136 per cent. and its net stable funding ratio ("**NSFR**") was 120 per cent.

CYBG Group maintains a liquid asset portfolio that includes primarily cash in deposits with central banks and UK Government gilts. CYBG Group manages this portfolio to meet PRA liquidity requirements while diversifying the mix to reduce basis risk and optimise the yield on liquid assets.

Overall, liquid assets decreased from £8,968 million as at 30 September 2012 to £7,695 million as at 30 September 2013 and £7,154 million as at 30 September 2014. During this period, CYBG Group reduced excess liquidity by reducing low yielding cash and balances with central banks while maintaining a prudent level of liquid assets in excess of PRA regulatory requirements. As at 30 September 2015, liquid assets increased to £7,893 million, reflecting strong growth in retail funding in excess of lending in the year and partial pre-funding of customer asset growth.

9.2 *Funding*

CYBG Group has a diversified funding base, with the majority of CYBG Group's funding for its loan portfolio generated through customer deposits in the form of current accounts and savings accounts. In recent years, CYBG Group has experienced strong growth in current accounts balances, while more expensive term deposits have significantly decreased.

CYBG Group aims to manage its balance sheet so that customer asset growth is matched with sustainable retail deposit growth, which CYBG Group monitors through the LDR. CYBG Group's LDR was 115 per cent. as at 30 September 2014 and 109 per cent. as at 30 September 2015.

CYBG Group also actively seeks to diversify its funding mix through RMBS and covered bond securitisation programmes. CYBG Group seeks to diversify its funding in terms of the type of instrument and product, maturity, currency, counterparty, term structure and markets through such programmes. CYBG Group issued £1.1 billion of external covered bonds in June 2012. In terms of external RMBS, CYBG Group issued €615 million in March 2012, \$800 million and £525 million in July 2012, £350 million and \$300 million in July 2013, £350 million and €300 million in March 2014, €550 million and £275 million in December 2014 and £300 million and €280 million in August 2015 through the Lanark securitisation programme. The tenor of the bonds to their call date ranges from 3 to 14 years, which helps to provide a stable funding base for CYBG Group.

9.3 *Due to related entities*

During the period comprising the years ended 30 September 2015, 2014, 2013 and 2012, CYBG Group has significantly reduced the extent of senior funding from NAB and obtained an increasing proportion of its funding from retail deposits and secured wholesale term funding (in the form of RMBS and covered bonds). In 2012, CYBG Group repaid intragroup funding to NAB in the amount of £5,084 million with proceeds from the disposal of the legacy CRE portfolio to NAB. In December 2013, CYBG Group redeemed £300 million of Additional Tier 1 capital. In December 2014, £650 million of Tier 2 subordinated debt issued to NAB and NAB related parties was also redeemed. These instruments would have become progressively ineligible for Tier 2 treatment under CRD IV's transitional rules from 1 January 2015 as well as the introduction of a 25 per cent. capital limit under Pillar 2A. These instruments were replaced by an issue of £350 million of ordinary shares to NAB related parties and issues of Additional Tier 1 capital instruments of £450 million to NAB. As a result of these and other transactions, total amounts due to related entities decreased to £998 million as at 30 September 2015 from £7,716 million as at 30 September 2012. For additional information see "*Material Contracts—Demerger Implementation Deed*".

In July 2015, CYBG Group repaid £312 million of senior unsecured funding from NAB at contractual maturity. As at 30 September 2015, deposit amounts and funding arrangements including senior unsecured funding due to related parties amounted to £125 million. Of this amount, a £100 million loan was repaid in October 2015, three months earlier than the maturity date. Following this repayment, CYBG Group had no senior unsecured funding due to related parties outstanding. Following the Demerger and the Global Offer (as defined in "*Details of the Demerger and Company Capital Reduction—Details of the Demerger—Introduction and Effects of the Demerger*"), CYBG Group expects amounts due to NAB to further decrease as RMBS funding from NAB is replaced at maturity through like for like issuance.

10. **Capital Adequacy**

CYBG Group's CET1 ratio was 9.6 per cent. at 30 September 2013, 9.4 per cent. at 30 September 2014 and 13.2 per cent. at 30 September 2015.

The table below sets out the capital position and capital ratios of CYBG Group on a CRD IV basis and includes grandfathered legacy Tier 2 instruments under the transitional rules implemented by the PRA.

	As at 30 September	
	2015	2014
	CRD IV	CRD IV
	(£m, except %)	
CET1 capital	2,405	1,747
Additional Tier 1 capital instruments	450	300
Total Tier 1 capital	2,855	2,047
Tier 2 capital	598	1,260
Total capital	3,453	3,307
Capital ratios:		
CET1 ratio	13.2%	9.4%

	As at 30 September	
	2015	2014
	CRD IV	CRD IV
Tier 1 ratio	15.7%	11.0%
Total capital ratio	18.9%	17.7%
Risk-weighted assets:		
2015 Total RWAs	18,227	18,645
2015 Credit RWAs	16,294	16,763

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into and completed certain arrangements to replace NAB's interest in CYBG Group's then existing Additional Tier 1 capital instruments and Tier 2 subordinated debt, with an equivalent amount of new Additional Tier 1 capital instruments (being the Notes) and Tier 2 subordinated debt. For additional information, see "*Material Contracts—Demerger Implementation Deed*".

11. Conduct

Conduct-related issues, including PPI customer redress, have had a significant impact on the profitability of participants in the UK retail banking market, including CYBG Group, in recent years. CYBG Group has been implementing a comprehensive programme intended to ensure continued improvements in the handling of all complaints, and work continues to be done to address identified legacy conduct issues. In response to regulatory actions and legacy conduct issues, CYBG Group has raised PPI customer redress provisions, as well as provisions for other conduct-related matters, including the sale of IRHP (which includes Standalone IRHP and Voluntary Scope TBLs) and certain FRTBLs which are, or previously have been, subject to customer complaint.

CYBG Group is working to remediate a number of other issues which have not had and are not expected to have a material impact on CYBG Group's financial position, operations or profitability. A training and competency framework has been implemented for complaint handling teams, with all staff enrolled in ongoing fair outcome training programmes.

CYBG Group has a clear set of objectives and desired outcomes to achieve in respect of its conduct towards its customers. These target objectives and outcomes are designed to ensure fair customer outcomes and are described within CYBG Group's conduct framework (the "**Conduct Framework**"). At the core of CYBG Group's Conduct Framework are the six Treating Customers Fairly outcomes as defined by the FCA. The overall Conduct Framework is the responsibility of the CEO and the implementation of each element of the Conduct Framework is assigned to an executive team member. CYBG Group undertakes regular assessment of these elements with a view to monitoring that the Conduct Framework is executed properly. CYBG staff complete, as part of their annual compliance training, a Customer Focused e-Learning module which covers the importance of being customer focused and delivering fair customer outcomes. CYBG Group places importance on customer outcomes in staff performance scorecards of all staff, creating employee accountability and incentivising better customer engagement.

In addition to the Conduct Framework, CYBG Group has a customer fairness model for the identification and management of potential conduct issues (the "**Customer Fairness Model**"). The Customer Fairness Model is governed through CYBG Group's Customer Fairness Board. In 2013, CYBG Group also implemented an enhanced product governance framework with a standardised "best practice" model across product management (the "**Product Governance Framework**"). This Product Governance Framework incorporates a review of new products and changes to existing products, and is designed to ensure that both on and off-sale products are subject to a periodic formal review, with higher risk products being subject to approval by the risk committee and then reviewed annually. CYBG Group has assessed its products in order to categorise products by risk category into high, medium and low risk products. CYBG Group has conducted a detailed review of products it has categorised as high risk products and is in the process of reviewing products that it has categorised as medium and low risk products. For example, CYBG Group has conducted two in-depth annual product reviews of its packaged bank account product under the Product Governance Framework and did not identify any systemic

issues with this product. The frequency of these periodic reviews is risk based and driven by an assessment of an individual product against five key risk factors: target market, complexity, performance, reputation and commercial risk, taking into account customer feedback. Additionally, five new product manager roles and 11 new senior product analyst roles were created to support this strengthened focus on product governance.

In January 2014, CYBG Group created a Customer Trust and Confidence division to provide clear accountability for all conduct-related matters and centralise activity across legacy back book issues. The Customer Trust and Confidence division is led by an executive director. Within the Customer Trust and Confidence division, CYBG Group has established a Customer Remediation Centre of Excellence, which includes a team of skilled employees working across customer remediation activities. These employees are responsible for developing and implementing and seeking to ensure that a consistent approach to best practices, project structure and discipline as well as that agreed remediation principles are followed to facilitate consistent and fair customer outcomes. A redress forum is responsible for agreeing the redress approach for all remediation initiatives, which is intended to ensure a consistent approach to redress.

Management use a detailed conduct performance dashboard to monitor CYBG Group's progress in becoming a trusted UK retail bank, including monitoring the processes for managing conduct redress activity.

Conduct Mitigation

Introduction and Scope of Coverage

As part of the Demerger, NAB and the Issuer have entered into the Conduct Indemnity Deed under which NAB has agreed, subject to certain limitations, to provide the Issuer with the Capped Indemnity in respect of certain historic liabilities relating to conduct in the period prior to the Demerger Date. The Capped Indemnity provides CYBG Group with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

- (i) PPI, Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and
- (ii) other conduct matters, measured by reference to the following thresholds (a) claims relating to an industry wide compensation customer redress programme entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate, and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to the Demerger Date whether or not known at the Demerger Date. For these purposes, "conduct in period prior to the Demerger Date" includes acts, omissions and agreements by or on behalf of CYBG Group with respect to CYBG Group or CRE customers in relation to the period prior to the Demerger Date which either constitute a breach of or failure to comply with, or are determined by the Issuer in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with, applicable law or regulations.

Claims may be made by the Issuer under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any Relevant Conduct Matter. Any existing provisions for Relevant Conduct Matters are, where possible, to be utilised by CYBG Group prior to a member of CYBG Group raising new provisions or increasing existing provisions that fall within the scope of the Capped Indemnity (and thereby giving rise to a claim under the Capped Indemnity).

Amounts payable under the Capped Indemnity include, subject to certain limitations, provisions raised or increased in respect of payments to customers to satisfy, settle or discharge a Relevant Conduct Matter and of the direct costs and expenses of satisfying, settling, discharging or administering such Relevant Conduct Matter. The Capped Indemnity does not extend to indirect costs nor penalties or other financial losses which may be incurred by CYBG Group in respect of the mishandling of a Relevant Conduct Matter by CYBG Group during the period following the Demerger. In addition, whilst the Capped Indemnity covers claims resulting from changes in the

generally accepted application or interpretation of laws or regulations, it does not cover claims arising from the retrospective application of new laws and regulations.

Capped Indemnity Amount, Unutilised Provisions and Unutilised Indemnity Amount

At the Demerger Date, the Capped Indemnity Amount is £1.115 billion. This figure is determined as follows:

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

The residual amount of the conduct support package as at the Demerger Date will be provided by NAB pursuant to the Capped Indemnity and therefore the Capped Indemnity Amount is £1.115 billion.

The support provided by the Capped Indemnity is in addition to CYBG Group's existing unutilised provisions for conduct liabilities as at the Demerger Date (the amount of such provisions, including the Pre-Covered Provision Amount, **"Pre-Demerger Provision Amounts"**), being as at 30 September 2015, £986 million in aggregate, comprising: (i) a provision of £774 million for PPI; (ii) provisions of £192 million for Standalone IRHP, Voluntary Scope TBLs and FRTBLs; and (iii) provisions of £20 million for other conduct related matters. The support provided by the Capped Indemnity, in addition to the £986 million in unutilised provisions remaining as at 30 September 2015, provides total cover for conduct costs of £2.1 billion (without taking account of the Loss Sharing Arrangement).

The amount of support available pursuant to the Capped Indemnity at any given time following the Demerger Date will be the **"Unutilised Indemnity Amount"**, being the Capped Indemnity Amount less the following agreed deductions:

- The Unutilised Indemnity Amount will be reduced to the extent of any payments made pursuant to the Capped Indemnity (net of any repayments to NAB made by the Issuer following a release or reduction of a provision of a member of CYBG Group for Relevant Conduct Matters).
- The Unutilised Indemnity Amount will also be reduced to the extent of any interest or tax deduction applied or required to be applied by CYBG Group against provisions of a member of CYBG Group for Relevant Conduct Matters pursuant to the Conduct Indemnity Deed.
- The Issuer and NAB will use reasonable endeavours to ensure that the PRA undertakes a periodic reassessment of the potential remaining exposure of CYBG Group to conduct costs in conjunction with the submission of CYBG Group's ICAAP to the PRA. The Unutilised Indemnity Amount will be permanently reduced following any reassessment by the PRA that the potential remaining exposure of CYBG Group to Relevant Conduct Matters is less than the sum of the outstanding Unutilised Indemnity Amount from time to time plus any unutilised Pre-Demerger Provision Amounts and the Issuer's outstanding liability under the Loss Sharing Arrangement (being any unused portion of the Issuer's £120 million share under such arrangement).

In addition, under the terms of the Conduct Indemnity Deed, NAB will reimburse the Issuer for any reasonable out-of pocket costs of CYBG Group in implementing investments in its operational efficiency programmes (less the Issuer's Loss Share of such costs), provided that, where such costs are in excess of £2 million in any financial year of CYBG Group, NAB and the Issuer have each approved such investments. The Unutilised Indemnity Amount will be reduced by the amount of any reimbursements made by NAB for such costs.

Loss Sharing Arrangement

In order to align the interests of NAB and the Issuer with respect to each claim under the Capped Indemnity, it has been agreed that NAB will pay to the Issuer an amount equal to any new provisions (or the amount of any increases in existing provisions) raised by a member of CYBG Group for Relevant Conduct Matters on a fixed proportional basis ("**Loss Sharing Arrangement**"). Under the Loss Sharing Arrangement, the Issuer will be responsible for that portion of the relevant conduct liabilities forming part of the relevant provision which equates to the proportion that £120 million bears to the sum of the Capped Indemnity Amount plus £120 million at the Demerger Date, expressed as a percentage (the "**Loss Share**"). At the Demerger Date, the Capped Indemnity Amount is £1.115 billion and therefore the Loss Share is 9.7 per cent.

Collateral Account

NAB will collateralise certain of its obligations under the Capped Indemnity from the Demerger Date by placing a cash deposit with The Bank of England in an amount equal to the Unutilised Indemnity Amount from time to time (the "**Collateral Account**") and over which a security interest at least equivalent to a floating charge will be granted in favour of the Issuer. If NAB wishes to implement an alternative collateral arrangement to replace the Collateral Account, the Issuer and NAB will discuss and seek to agree in good faith such alternative arrangements. The Issuer may not unreasonably withhold its consent to such arrangements if such alternative arrangements would not reasonably be expected to prejudice the ability of the Issuer to obtain payment of amounts otherwise payable from the Collateral Account. If any such arrangements are agreed between the Issuer and NAB, they must obtain the approval of the PRA before implementing those arrangements. The Collateral Account is only for the purposes of providing security for NAB's obligations under the Capped Indemnity. Claims under the Capped Indemnity will therefore be met by NAB directly with an equivalent amount being released from the Collateral Account back to NAB upon satisfaction of NAB's payment obligations. Any interest payable on the Collateral Account is payable to NAB.

Designated Account

Any amount paid to the Issuer pursuant to the Capped Indemnity will be deposited in a designated account at Clydesdale Bank in the name of the Issuer. The Issuer may, at its option, downstream the funds received to members of CYBG Group by way of one or a series of equity subscriptions, provided that the funds are credited to a designated account in the name of a member of CYBG Group (a "**Designated Account**") at all times. The Issuer has also transferred to a Designated Account, such portion of the Pre-Covered Provision Amount which was unutilised at the date of such transfer. Funds in a Designated Account will only be released when CYBG Group incurs and pays a conduct cost that falls within the scope of the Capped Indemnity. If CYBG Group incurs and pays such a cost, it may withdraw from a Designated Account(s) an amount equal to such costs on a quarterly basis. The amounts standing to the credit of the Designated Account(s) may not be withdrawn or allocated by CYBG Group for any other purpose (but without prejudice to the use by Clydesdale Bank in the ordinary course of its business of the deposit placed with it). Any interest earned on amounts standing to the credit of a Designated Account is to be applied in respect of the next relevant provision raised or increased by a member of CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity.

Release or Reduction of Provisions

If any provision forming part of a Pre-Demerger Provision Amount or any portion of CYBG Group's unutilised provisions for Relevant Conduct Matters which have been covered by the

Capped Indemnity (the "**Unutilised Covered Amount**"), is no longer required such that it is released or reduced, the aggregate amounts of provisions released or reduced (or, in the case of the Unutilised Covered Amount, the proportion thereof reflecting NAB's share under the Loss Sharing Arrangement) must be applied against the next relevant provision raised or increased by a member of CYBG Group or in discharging conduct costs falling within the scope of the Capped Indemnity. Where the aggregate amounts of provisions released or reduced are greater, by £15 million or more, than the provisions or increases within the scope of the Capped Indemnity which the Issuer believes will be raised by CYBG Group in the following 12 months, such excess amount shall be repaid to NAB (with a corresponding adjustment to the Unutilised Indemnity Amount in the amount of any excess which is repaid to NAB).

Information Rights and Dispute Resolution

Although the Issuer has sole conduct of Relevant Conduct Matters, NAB has the benefit of certain information, consultation and audit rights in relation to Relevant Conduct Matters and claims made under the Capped Indemnity. In addition, a joint conduct review committee comprising representatives of the Issuer and NAB has been established which is responsible for the oversight and governance of the Capped Indemnity arrangements.

The Capped Indemnity is also subject to a dispute resolution procedure which may result in any unresolved issues being determined by a third party expert or by court proceedings. If the dispute relates to a matter which is determined to be a continuing material breach by the Issuer of its obligations under the Conduct Indemnity Deed to, among others, cooperate in relation to the assessment by the PRA of the potential remaining exposure to claims within the scope of the Capped Indemnity and provide information to NAB to enable it to review the validity of claims made under the Capped Indemnity and withdrawals from the Designated Account(s), NAB will be entitled to suspend any part of a Capped Indemnity payment and the Issuer will be prohibited from withdrawing an amount from the Designated Account(s) for so long as such breach is continuing, in each case which relates to the Relevant Conduct Matter in relation to which the Issuer is in material non-compliance. All other amounts under the Capped Indemnity will remain payable by NAB.

Duration and Termination

The indemnity protection provided by NAB to the Issuer in respect of Relevant Conduct Matters under the Capped Indemnity is perpetual in nature, except in the following circumstances:

- (a) it is fully utilised by CYBG Group;
- (b) in the event that, at any time post-Demerger:
 - (i) the PRA determines that NAB's remaining exposure under the Capped Indemnity; or
 - (ii) the Unutilised Indemnity Amount,

is £100 million or less, NAB will have the right (with the approval of the PRA (at its sole discretion)) to terminate the Capped Indemnity by subscribing for the Ordinary Shares (at a price equivalent to the prevailing five-day average market price for the Ordinary Shares) in an amount equal to the Unutilised Indemnity Amount, provided that the maximum value of the Ordinary Shares to be subscribed for does not exceed a value equal to 9.9 per cent. of the issued share capital of the Issuer (on an undiluted basis) at such time (a "**£100 million Termination**"); and

- (c) NAB and the Issuer may also agree arrangements to terminate or replace the Capped Indemnity with the consent of the PRA. In particular, NAB and the Issuer have agreed that they will, on the fifth anniversary of the Demerger (and, if relevant, each subsequent anniversary of the Demerger), seek to agree arrangements to terminate the Capped Indemnity. If any such arrangements are agreed between NAB and the Issuer, they will be required to obtain the approval of the PRA (at its sole discretion) before commencing the implementation of such arrangements. In relation to proposals made by NAB to the Issuer in connection with such termination of the Capped Indemnity, the

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

If £100 million Termination or Post-5 Year Equity Subscription Termination occurs, the Issuer will not be entitled to make any further claims under the Capped Indemnity, but will be entitled to retain in the Designated Account(s) for a period of three years following such termination, any Unutilised Covered Amount and any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such termination. The Issuer will be required to return to NAB any other amounts in the Designated Account(s) and to release to NAB all amounts remaining in the Collateral Account. Following the expiry of such three-year period, the Issuer will be required to repay all remaining amounts in the Designated Account(s) net of any amount to be withdrawn from the Designated Account in respect of conduct costs that fall within the scope of the Capped Indemnity which have been incurred and paid by CYBG Group prior to such anniversary.

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

The Issuer has been granted an authority to issue and allot Ordinary Shares up to an aggregate nominal value of £200 million post-implementation of the Demerger in connection with any termination of the Capped Indemnity and to disapply pre-emption rights in respect of such issuances and allotments.

The Capped Indemnity will not automatically cease to apply nor will it automatically terminate upon any change of control of the Issuer, CYBI or Clydesdale Bank or in the event of a sale of the relevant business and assets of a member of CYBG Group. However, prior to any change of control, the parties must cooperate in good faith to facilitate an assessment by the PRA to determine whether the Capped Indemnity should continue in the then amount or whether it should be terminated in whole or part. Any such assessment will be at the sole discretion of the PRA.

Taxation

It is not expected that payments to the Issuer under the Capped Indemnity (or subsequent subscriptions for equity in other members of CYBG Group using the proceeds of such payments) will be taxable in the hands of CYBG Group but if tax were to be payable, then the Conduct Indemnity Deed contains provisions pursuant to which NAB has, as a term of the Sale and Purchase Agreement, agreed to compensate the Issuer for any actual tax incurred that would not have been incurred but for receipt of amounts by the Issuer under the Capped Indemnity or by members of CYBG Group pursuant to subsequent subscriptions for equity in members of CYBG Group using the proceeds of such payments. In certain circumstances, CYBG Group may be liable to a tax charge in respect of payments to customers for Relevant Conduct Matters and NAB has also agreed, subject to certain limitations, to compensate the Issuer for those tax costs net of deductible expenses if they arise in respect of NAB's share of liability under the Loss Sharing Arrangement for Relevant Conduct Matters (together with the matters referred to in the preceding sentence, the "**Tax Indemnity Provisions**"). It is not expected that the Tax Indemnity

Provisions will give rise to any net payment to the Issuer. Compensation will be paid when tax is incurred on the receipts or, where deferred tax assets are used to shelter tax on the receipts, when other income is subject to tax which would not have arisen but for the use of the deferred tax assets to shelter tax on the receipt of amounts under the Capped Indemnity, taking into account whether payments under the Capped Indemnity are taxable and whether the underlying customer compensation payments and related costs and expenses give rise to tax relief. To the extent actual tax becomes due, NAB will pay the Issuer an amount equal to such tax. The Unutilised Indemnity Amount will not be reduced for any payments made under the Tax Indemnity Provisions.

Should any amounts paid to the Issuer under the Capped Indemnity (or subsequent subscriptions for equity in members of CYBG Group in consequence of receipt of such payments) be subject to tax, it is not possible to determine the amount that may be payable under the Tax Indemnity Provisions as this will depend on tax legislation at the time the relevant payments (or subscriptions) become subject to tax. No changes to tax legislation are currently anticipated that would make such payments (or subscriptions) subject to tax however changes to UK tax legislation may be enacted at any time including before payments are due under the Tax Indemnity Provisions. Save for the Capped Indemnity and the Tax Indemnity Provisions, the Issuer has agreed to release the NAB Group from liability for any other conduct related claims by any member of CYBG Group against any member of the NAB Group.

12. Pensions

Defined benefit scheme

Clydesdale Bank is the sponsoring employer of a funded tax registered defined benefit occupational pension scheme, the DB Scheme. Under the DB Scheme, benefits provided are based on employees' years of service using either a career average formula or final salary formula. Clydesdale Bank is now the only employer in the DB Scheme. As at 30 September 2015, the DB Scheme had 25,811 members of whom 3,083 were active members, 15,531 were deferred pensioners and 7,197 were pensioners. The DB Scheme was closed to new entrants in 2004 but current active members continue to build up benefits.

The DB Scheme is operated separately from CYBG Group; assets are held and the scheme managed by an independent corporate trustee, Yorkshire and Clydesdale Bank Pension Trustee Limited (the "**DB Trustee**"). The DB Trustee has the power to determine the investment strategy of the DB Scheme after consultation with Clydesdale Bank. Regular actuarial valuations are held (at least every 3 years) to determine the funded status of the DB Scheme. At its last triennial valuation as at 30 September 2013, the DB Scheme was assessed to have a deficit of £450 million on an actuarial basis in line with the relevant statutory requirements, representing a funding level on this basis of 86 per cent. Following this valuation and in line with the relevant legal requirements, Clydesdale Bank agreed to make the following payments relating to the deficit in the DB Scheme: £65 million on 1 October 2013, £150 million by 30 June 2014, £50 million on each of 1 October 2017, 1 October 2018, 1 October 2019, 1 October 2020 and 1 October 2021, and £55 million on 1 October 2022. As at 30 September 2015, the estimated funding level of the scheme had increased to 90 per cent.

Clydesdale Bank has held discussions with the DB Trustee about potential security arrangements in respect of contributions payable under the recovery plan. These discussions are progressing but any arrangements would only be put in place if it could be designed to fit with the regulatory, capital and business requirement of Clydesdale Bank and to provide a level of security that the DB Trustee considers to be improved over the current position.

The following table sets out CYBG Group's pension liability on an accounting basis and on a cash funding basis as at the dates indicated.

	As at 30 September			
	2015	2014	2013	2012
	£m			
Accounting basis	52	49	(197)	(301)
Cash funding basis.....	(396)	(244)	(450)	(699)

The cash funding basis refers to the value prepared in accordance with Part 3 of the Pensions Act 2004 and is calculated by the scheme actuary. In 2012, the cash funding basis was calculated as an approximate roll forward of the 2010 actuarial valuation. As at 30 September 2013, the cash funding basis was calculated as part of the full actuarial funding valuation. The cash funding basis will be calculated as an approximate roll forward of the 2013 valuation in subsequent periods. See note 32 to the Historical Financial Information for further information.

Defined contribution scheme

CYBG Group operates a defined contribution pension scheme for its employees (the "**DC Scheme**").

The DC Scheme's assets are held in a separately administered trust that is managed independently of CYBG Group by the scheme's board of trustees (the "**DC Trustee**") to provide pension benefits to past and present employees. The DC Trustee is required to act in the best interests of the beneficiaries of the DC Scheme.

Since April 2006, all employees were automatically included in the DC Scheme on joining CYBG Group. As at 30 September 2015, approximately 8,222 employees, of which 4,773 are active members and 3,449 deferred members, participated in the DC Scheme. For the majority of employees, employer contributions to the DC Scheme are 5 per cent. of pensionable salary plus an additional percentage of pensionable salary up to 5 per cent. based on the level of employee contributions.

In the year ended 30 September 2015, CYBG Group paid approximately £11.9 million employer contributions, which excludes approximately £4.9 million salary sacrifice contributions, to the DC Scheme in accordance with the rates specified by the rules of the scheme.

IMPORTANT INFORMATION - PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

1. Historical Financial Information

CYBG Group's consolidated Historical Financial Information has been prepared in accordance with IFRS as adopted by the EU and in accordance with the Prospectus Directive Regulation and the Listing Rules. The basis of preparation is further explained in "*Part 8—Historical Financial Information*" of the Equity Prospectus, Section B of which is incorporated by reference herein.

Ernst & Young LLP has reported, in accordance with Statements of Investment Reporting Standards issued by the Auditing Practices Board in the United Kingdom, on the Historical Financial Information as of and for the years ended 30 September 2012, 2013, 2014 and 2015 included in Section B of Part 8 of the Equity Prospectus and incorporated by reference herein, as stated in their accountant's report set out in "*Accountant's Report on Historical Financial Information*" on pages 179 to 180 of these Listing Particulars.

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

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

2. Pro Forma Financial Information

In these Listing Particulars, any reference to "pro forma" financial information is to information that has been extracted without material adjustment from the unaudited Pro Forma Financial Information incorporated by reference herein. The unaudited Pro Forma Financial Information incorporated by reference herein is based on the audited consolidated financial information of CYBG Group for the year ended 30 September 2015 included in Section B of "*Part 8—Historical Financial Information*" of the Equity Prospectus and incorporated by reference herein. The unaudited Pro Forma Financial Information of CYBG Group as at 30 September 2015 has been prepared to illustrate the effect of the separation of CYBG Group from NAB, which will result in the settlement of certain intercompany balances and reclassification of balances with related parties as external counterparties for outstanding balances.

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

3. Non-IFRS financial information

CYBG Group presents certain key performance indicators that are not defined under IFRS but that it finds useful in analysing its results and that CYBG Group believes are widely used by investors to monitor the results of banks generally. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides

CYBG Group with certain discretion in making its calculations. In addition, CYBG Group presents certain operating data about its operations that do not form part of CYBG Group's accounting records and are not subject to an audit or review process by independent external auditors.

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

3.1 *Management Basis*

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

3.2 *Key performance indicators*

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

SELECTED FINANCIAL AND OTHER INFORMATION

The selected financial and other information relating to CYBG Group set out below has been extracted or derived, without material adjustment, from the Historical Financial Information and CYBG Group's accounting records and financial reporting systems. Investors should read the whole of these Listing Particulars before making an investment decision and not rely solely on the summarised information set out below.

1. Consolidated Income Statement Data

The following table sets out consolidated income statement data for CYBG Group that has been extracted from the Historical Financial Information.

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

2. Consolidated Income Statement Data – Management Basis

The following table sets out consolidated income statement data for CYBG Group that, unless otherwise specified, has been extracted or derived, without material adjustment, from the Historical Financial Information. The income statement data for the year ended 30 September 2012 includes adjustments relating to the disposed commercial real estate ("CRE") portfolio that

are unaudited. The consolidated income statement data is presented on a management basis, which CYBG Group believes provides useful supplemental information to assist in evaluating the underlying operating performance of CYBG Group's business in the years ended 30 September 2015, 2014, 2013 and 2012 and to facilitate more meaningful period-to-period comparisons ("Management Basis"). The Management Basis information includes adjustments to present items that CYBG Group believes are non-recurring, or not otherwise indicative of the underlying performance of the business, separately from CYBG Group's underlying results of operations. These adjustments are set out in the reconciliation of the Historical Financial Information to the Management Basis information presented in paragraph 5 below. Refer to the Historical Financial Information for further information.

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

3. Consolidated Balance Sheet Data

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

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

(1) Customer loans comprise gross loans and advances to customers, loans and advances included in other financial assets at fair value and due from customers on acceptances (excluding accrued interest receivable) as presented in the Historical Financial Information.

(2) Assets held for sale were £5,225 million as at 30 September 2012 and comprised predominantly legacy CRE assets and associated loans net of provisions. CYBG Group transferred assets held for sale to NAB in October 2012.

(3) Customer deposits comprise amounts due to customers and other financial liabilities at fair value (excluding accrued interest payable) as presented in the Historical Financial Information.

4. Key Performance Indicators

CYBG Group uses a variety of key performance indicators to aid in assessing CYBG Group's financial performance. CYBG Group believes that each of these measures provides useful supplemental information with respect to the performance of CYBG Group's business and operations. The following table sets out key performance indicators for CYBG Group as at and for each of the years ended 30 September 2015, 2014, 2013 and 2012.

The key performance indicators presented below are measures that are not defined under IFRS. Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, but that regulation often provides CYBG Group with certain discretion in making its calculations. Because of the discretion that CYBG Group and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these measures with similar measures used by other banks. Certain of the measures presented in this paragraph 4 are based on Management Basis information.

	As at and for the year ended 30 September			
	2015	2014	2013	2012
	(% , unless otherwise specified)			
Profitability ratios:				
Net interest margin ⁽¹⁾	2.20	2.30	2.18	2.07
Management Basis net interest margin ⁽²⁾	2.20	2.30	2.18	2.20
ROTE ⁽³⁾	(10.3)	(9.4)	(2.1)	(26.1)
Management Basis ROTE ⁽⁴⁾	5.1	7.7	4.4	0.5
Cost-to-income ratio ⁽⁵⁾	120	116	90	106
Management Basis cost-to-income ratio ⁽⁶⁾	75	70	71	77
Asset quality ratios:				
Impairment charge to average customer loans ⁽⁷⁾	0.21	0.30	0.60	0.74
90+ DPD to customer loans ⁽⁸⁾	0.50	0.66	0.84	0.84

	As at and for the year ended 30 September			
	2015	2014	2013	2012
Gross impaired assets to customer loans ⁽⁹⁾	0.91	1.35	1.61	1.64
90+ DPD plus gross impaired assets to customer loans ⁽¹⁰⁾	1.41	2.01	2.45	2.48
Specific provision to gross impaired assets ⁽¹¹⁾	39.2	37.3	36.9	30.3
Total provision to customer loans ⁽¹²⁾	0.93	1.15	1.39	1.36
Indexed LTV of mortgage portfolio ⁽¹³⁾	55.3	58.8	63.5	66.6
Regulatory capital ratios:				
CET1 ratio ⁽¹⁴⁾	13.2	9.4	9.6	7.7
Tier 1 ratio ⁽¹⁵⁾	15.7	11.0	11.1	8.9
Total capital ratio ⁽¹⁶⁾	18.9	17.7	17.5	14.4
Leverage Ratio ⁽¹⁷⁾	7.1	5.2	5.1	4.6
Liquidity ratios:				
LDR ⁽¹⁸⁾	109	115	109	104
LCR ⁽¹⁹⁾⁽²¹⁾	136	110	119	N/A
NSFR ⁽²⁰⁾⁽²¹⁾	120	108	106	N/A

- (1) Net interest margin is defined as net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.
- (2) Management Basis net interest margin is defined as Management Basis net interest income divided by average interest-earning assets for a given period. For the years ended 30 September 2015, 2014, 2013 and 2012, average interest-earning assets were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.
- (3) ROTE is defined as profit/(loss) after tax less preference share dividends, non-controlling interest distributions and distributions on CRD IV compliant additional tier 1 securities ("**Additional Tier 1 Securities**") as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 Securities and preference shares) for a given period. Average tangible equity has been calculated using tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.
- (4) Management Basis ROTE is defined as underlying profit after tax less preference share dividends, non-controlling interest distributions and distributions on Additional Tier 1 Securities as a percentage of average tangible equity (total equity less intangible assets excluding non-controlling interest, Additional Tier 1 Securities and preference shares) for a given period. Underlying profit after tax is defined as underlying profit before tax less tax charge (or plus tax credit, as the case may be). Underlying profit after tax was equal to £28 million, £94 million, £171 million and £139 million for the years ended 30 September 2012, 2013, 2014 and 2015, respectively. The Management Basis tax credit/(charge) is calculated by applying the statutory tax rate for the relevant period (30 September 2015: 20.5 per cent.; 30 September 2014: 22.0 per cent.; 30 September 2013: 23.5 per cent.; 30 September 2012: 25.0 per cent.) to the taxable items adjusted on the Management Basis. The taxable items comprise PPI redress expense, IRHP and FRTBL redress expense, other conduct, disposed legacy CRE portfolio impact, part of separation costs and part of restructuring expenses. In computing taxable profits, the gross gain on the capital restructure was non-taxable and distributions on Additional Tier 1 Securities were taken as a deduction for tax purposes although recorded as a dividend payable for accounting purposes. Distributions on Additional Tier 1 Securities are expected to be deductible based on the prevailing mainstream rate of corporation tax and, commencing 1 January 2016, the banking surcharge. The pension scheme reform benefit and the pension increase exchange gain were also non-taxable. CYBG Group had an unrecognised deferred tax asset of £16 million (representing trading losses with a gross value of £80 million) at 30 September 2015, reflecting the uncertainty of projections towards the end of the period over which such differences might be expected to reverse. Average tangible equity has been calculated using the tangible equity spot balances at each of the month ends of the applicable period. Average tangible equity was £2,366 million, £2,102 million, £2,138 million and £2,537 million for the years ended 30 September 2015, 2014, 2013 and 2012, respectively.
- (5) Cost-to-income ratio is defined as total operating expenses as a percentage of total operating income for a given period.
- (6) Management Basis cost-to-income ratio is defined as Management Basis total operating expenses as a percentage of Management Basis total operating income for a given period.
- (7) Impairment charge to average customer loans is defined as impairment charges on total customer loans as a percentage of average customer loans for a given period. Impairment charge is defined as impairment losses on credit exposures plus credit risk adjustments on fair value loans. This ratio excludes £564 million of impairment charges and £5,652 million of loans from the average loan balance in respect of the disposed CRE portfolio for the year ended 30 September 2012. For the years ended 30 September 2015, 2014, 2013 and 2012, average customer loans were calculated using the yearly average of the monthly averages during the year. Monthly average balances are calculated based on daily spot balances.
- (8) 90+ DPD to customer loans is defined as customer loans that are more than 90 days overdue as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.
- (9) Gross impaired assets to customer loans is defined as gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012. Unsecured personal lending is written-off once it becomes 180 days past due and is never designated as impaired.

- (10) 90+ DPD plus gross impaired assets to customer loans is defined as customer loans that are more than 90 days overdue plus gross impaired assets as a percentage of total customer loans at a given date. This ratio excludes £144 million of more than 90 days overdue loans, £842 million of gross impaired loans and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.
- (11) Specific provision to gross impaired assets is defined as the specific impairment provision on credit exposures as a percentage of gross impaired assets at a given date. This ratio excludes £309 million of specific provisions and £842 million of gross impaired loans in respect of the disposed CRE portfolio at 30 September 2012.
- (12) Total provision to customer loans is defined as total impairment provision on credit exposures as a percentage of total customer loans at a given date. This ratio excludes £463 million of provisions and £5,652 million of total customer loans in respect of the disposed CRE portfolio at 30 September 2012.
- (13) Indexed LTV of mortgage portfolio is defined as mortgage portfolio weighted by balance and indexed using the Halifax house price index at a given date.
- (14) CET1 ratio is defined as CET1 capital divided by RWAs at a given date. The CET1 ratios as at 30 September 2012 and 2013 were calculated under Basel II. The CET1 ratio as at 30 September 2014 was calculated under CRD IV regulations. As at 30 September 2015, the CET1 ratio was calculated in accordance with the revised CRD IV regulations applicable from 1 January 2015.
- (15) Tier 1 ratio is defined as Tier 1 capital resources divided by RWAs at a given date.
- (16) Total capital ratio is defined as total capital resources divided by RWAs at a given date. As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into and completed certain arrangements to replace NAB's interest in CYBG Group's then existing Additional Tier 1 Securities and subordinated notes qualifying as Tier 2 capital ("**Tier 2 Notes**"), with the Notes and the New Tier 2 Notes issued by the Issuer on the Demerger Date and initially held by NAB. For further information, see "*Material Contracts—Demerger Deed*".
- (17) Leverage Ratio is calculated in accordance with the relevant EU legislation and applicable guidance at the balance sheet date.
- (18) LDR is defined as customer loans as a percentage of customer deposits at a given date.
- (19) CYBG Group monitors the LCR based on its own interpretations of current guidance available for CRD IV LCR reporting. Therefore, the reported LCR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.
- (20) CYBG Group monitors the NSFR based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, CYBG Group's ratio may not be directly comparable with those of other financial institutions.
- (21) CYBG Group reports this ratio for all material operating entities within CYBG Group, excluding consolidated securitisation entities. This ratio reflects the regulatory view with respect to oversight of CYBG Group's liquidity position and resources.

5. Consolidated Income Statement Data – Reconciliation of the Historical Financial Information to the Management Basis

The following tables set out a reconciliation of the Historical Financial Information of CYBG Group to the Management Basis information for the years ended 30 September 2015, 2014, 2013 and 2012. Unless otherwise specified, the information in the tables below has been extracted or derived, without material adjustment, from the Historical Financial Information.

	Year ended 30 September 2015			Year ended 30 September 2014		
	HFI Income Statement	Presentation Differences	Management Basis	HFI Income Statement	Presentation Differences	Management Basis
	£m					
Interest income and similar income	1,110	-	1,110	1,135	-	1,135
Interest expense and similar charges	(323)	-	(323)	(350)	-	(350)
Net interest income	787	-	787	785	-	785
Gains less losses on financial instruments at fair value	2	-	2	(8)	-	(8)
Other operating income ⁽¹⁾	238	(63)	175	205	-	205
Non-interest income	240	(63)	177	197	-	197
Total operating income	1,027	(63)	964	982	-	982
Personnel expenses ⁽²⁾⁽⁹⁾	(266)	(16)	(282)	(287)	-	(287)
Depreciation expense	(83)	-	(83)	(78)	-	(78)
Other operating and administrative expenses ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	(868)	506	(362)	(777)	456	(321)
Restructuring expenses ⁽⁸⁾	(17)	17	-	-	-	-
Total operating and administrative expenses before impairment losses	(1,234)	507	(727)	(1,142)	456	(686)
Operating profit/(loss) before impairment losses	(207)	444	237	(160)	456	296
Impairment losses on credit	(78)	-	(78)	(74)	-	(74)

	Year ended 30 September 2015			Year ended 30 September 2014		
	HFI Income Statement	Presentation Differences	Management Basis	HFI Income Statement	Presentation Differences	Management Basis
	<i>£m</i>					
exposures						
Underlying profit on ordinary activities before tax.....	(285)	444	159	(234)	456	222
PPI redress expense ⁽³⁾	-	(390)	(390)	-	(420)	(420)
PPI complaint handling fine ⁽⁴⁾	-	(21)	(21)	-	-	-
IRHP/FRTBL redress expense ⁽⁵⁾	-	(75)	(75)	-	-	-
Other conduct ⁽⁶⁾	-	-	-	-	(13)	(13)
Impairment of intangible assets ⁽⁷⁾	-	(10)	(10)	-	(23)	(23)
Restructuring expenses ⁽⁸⁾	-	(17)	(17)	-	-	-
Separation costs ⁽⁹⁾	-	(10)	(10)	-	-	-
Net gain on capital restructuring and debt buy-back ⁽¹⁾	-	61	61	-	-	-
Pension increase exchange gain ⁽²⁾	-	18	18	-	-	-
Loss on ordinary activities before tax.....	(285)	-	(285)	(234)	-	(234)
Tax credit.....	60	-	60	44	-	44
Loss for the year	(225)	-	(225)	(190)	-	(190)
Attributable to:						
Equity holders of the parent	(225)	-	(225)	(198)	-	(198)
Non-controlling interest	-	-	-	8	-	8
	(225)	-	(225)	(190)	-	(190)

- (1) During the year ended 30 September 2015, other operating income included a gain of £61 million relating to the December 2014 capital restructure, which was undertaken to replace instruments that were non-compliant for CRD IV purposes with CRD IV compliant instruments. The gain was a result of the repurchase of £650 million of subordinated liabilities at fair value. The subordinated debt was replaced with an issue of £350 million of ordinary shares to NAB related parties and Additional Tier 1 Securities of £150 million to NAB. Other operating and administrative expenses included costs incurred in connection with the capital restructuring of £2 million. A further gain of £2 million was made in the year ended 30 September 2015 on the early redemption of medium-term funding with NAB. There is no equivalent amount for the year ended 30 September 2014.
- (2) During the year ended 30 September 2015, CYBG Group's defined benefit pension plan arrangements were amended to offer certain members the option to participate in a pension increase exchange upon retirement. After taking independent financial advice, the member may be entitled to take a higher rate of pension upon retirement in exchange for waiving their right to future inflation based increases. This policy change resulted in a credit to the income statement of £18 million within personnel expenses, resulting in a reduction in the defined benefit pension expense to £11 million. There is no equivalent amount for the year ended 30 September 2014.
- (3) PPI redress expense provision costs of £390 million and £420 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.
- (4) On 14 April 2015, the FCA issued a fine of £21 million against CYBG Group for failings in CYBG Group's PPI complaint handling processes between May 2011 and July 2013. As a result, CYBG Group recorded other operating expenses of £21 million relating to a PPI complaint handling fine in the year ended 30 September 2015. There is no equivalent amount for the year ended 30 September 2014.
- (5) CYBG Group recorded a charge of £75 million for IRHP and FRTBL redress expenses for the year ended 30 September 2015 within other operating and administrative expenses. These expenses have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2014.
- (6) Other conduct charges of £13 million for the year ended 30 September 2014 were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2015.
- (7) Impairment charges on intangible assets of £10 million and £23 million for the years ended 30 September 2015 and 2014, respectively, were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs and have been excluded from the results on the Management Basis.
- (8) CYBG Group recorded a charge of £17 million in restructuring costs for the year ended 30 September 2015, principally for headcount reductions across the front and back offices. There is no equivalent amount for the year ended 30 September 2014.
- (9) Separation costs of £10 million for the year ended 30 September 2015 were recorded within personnel expenses (£2 million) and within other operating and administrative expenses (£8 million). These costs were incurred for pre day one separation activities, and, due to their non-recurring nature, have been excluded from the results on the Management Basis.

	Year ended 30 September 2013			Year ended 30 September 2012			
	HFI Income Statement	Presentation Differences	Management Basis	HFI Income Statement	Presentation Differences	Presentation Differences relating to the disposed CRE portfolio ⁽¹⁾	Management Basis
	<i>£m</i>			<i>£m</i>			
				<i>(unaudited)</i>			
Interest income and similar income.....	1,209	-	1,209	1,461	-	(161)	1,300
Interest expense and similar charges	(441)	-	(441)	(584)	-	90	(494)
Net interest income	768	-	768	877	-	(71)	806
Gains less losses on financial instruments at fair value.....	(35)	-	(35)	(144)	-	-	(144)
Other operating income ⁽²⁾	225	-	225	399	(130)	(5)	264
Non-interest income	190	-	190	255	(130)	(5)	120
Total operating income	958	-	958	1,132	(130)	(76)	926
Personnel expenses	(302)	-	(302)	(329)	-	14	(315)
Depreciation expense	(76)	-	(76)	(75)	-	-	(75)
Other operating and administrative expenses ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	(485)	180	(305)	(645)	320	-	(325)
Restructuring expenses	-	-	-	(149)	149	-	-
Total operating and administrative expenses before impairment losses.....	(863)	180	(683)	(1,198)	469	14	(715)
Operating profit/(loss) before impairment losses.....	95	180	275	(66)	339	(62)	211
Impairment losses on credit exposures.....	(144)	-	(144)	(737)	-	564	(173)
Underlying profit on ordinary activities before tax	(49)	180	131	(803)	339	502	38
Pension scheme reforms benefit ⁽²⁾	-	-	-	-	130	-	130
PPI redress expense ⁽³⁾	-	(130)	(130)	-	(120)	-	(120)
Other conduct ⁽⁴⁾	-	(50)	(50)	-	(23)	-	(23)
Impairment of intangible assets ⁽⁵⁾	-	-	-	-	(36)	-	(36)
Impairment losses on goodwill ⁽⁶⁾	-	-	-	-	(141)	-	(141)
Disposed legacy CRE portfolio impact ⁽¹⁾	-	-	-	-	-	(502)	(502)
Restructuring expenses ⁽⁷⁾	-	-	-	-	(149)	-	(149)
Loss on ordinary activities before tax.....	(49)	-	(49)	(803)	-	-	(803)
Tax credit	5	-	5	156	-	-	156
Loss for the year.....	(44)	-	(44)	(647)	-	-	(647)
Attributable to:							
Equity holders of the parent.....	(44)	-	(44)	(656)	-	-	(656)
Non-controlling interest	-	-	-	9	-	-	9
	(44)	-	(44)	(647)	-	-	(647)

- (1) These amounts are unaudited. The £502 million amount disclosed above represents the impact of the disposed CRE portfolio on the results for the year ended 30 September 2012. The legacy CRE portfolio was reclassified as held for sale at 30 September 2012 and the £5,225 million of predominantly CRE assets and associated loans net of provisions was transferred to NAB in October 2012. The presentation of results on the Management Basis excludes the results, including impairment losses, of the disposed legacy CRE portfolio during the year ended 30 September 2012. Accordingly, interest income of £161 million, interest expense of £90 million, other operating income of £5 million, personnel expenses of £14 million and an impairment loss on credit exposures of £564 million have all been removed from the results on the Management Basis and are instead shown as a single loss on the disposed legacy CRE portfolio of £502 million. The interest expense of £90 million has been calculated by applying the contractual rates that were in place for the majority of the funding to all of the funding arrangements supporting the CRE portfolio prior to the disposal. There is no equivalent amount for the year ended 30 September 2013.
- (2) In the year ended 30 September 2012, CYBG Group received a one-off pension contribution of £130 million from NAB in respect of the defined benefit pension scheme. This amount was recognised as a one-off gain in other operating income, but has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.
- (3) PPI redress expense provision costs of £130 million and £120 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.
- (4) Other conduct charges of £50 million and £23 million for the years ended 30 September 2013 and 2012, respectively, were recorded within other operating and administrative expenses and have been removed from the results on the Management Basis.

- (5) Impairment charges on intangible assets of £36 million for the year ended 30 September 2012 were recorded within other operating and administrative expenses. These costs comprise impairment on capitalised software costs, predominantly with respect to business banking systems in 2012 and have been excluded from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.
- (6) A goodwill impairment charge of £141 million was recorded within other operating and administrative expenses for the year ended 30 September 2012. It represents a reduction in the value of CYBG Group's investment in Clydesdale Bank, reflecting the results, including impairment losses, on the legacy CRE portfolio and other restructuring costs that the business incurred in that period. This cost has been removed from the results on the Management Basis due to its non-recurring nature. There is no equivalent amount for the year ended 30 September 2013.
- (7) CYBG Group recorded a charge of £149 million for restructuring for the year ended 30 September 2012, principally for headcount reductions and the closure or relocation of certain business and private banking centres and back office locations, as part of the 2012 strategic review. This charge has been removed from the results on the Management Basis. There is no equivalent amount for the year ended 30 September 2013.

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION

The Directors
CYBG PLC
20 Merrion Way
Leeds LS2 8NZ

8 February 2016

Dear Sirs,

CYB Investments Limited (formerly National Australia Group Europe Limited) ("CYBI")

We report on the financial information of CYBI for the years ended 30 September 2012, 2013, 2014 and 2015 as set out in Section B of "*Part 8 – Historical Financial Information*" on pages 274 to 372 of the equity prospectus dated 3 February 2016 in relation to the admission of the ordinary shares of CYBG PLC (the "**Company**") to the premium listing segment of the Official List and to trading on the London Stock Exchange plc's main market for listed securities (the "**Historical Financial Information**"). The Historical Financial Information has been incorporated by reference into the listing particulars dated 8 February 2016 of the Company relating to £450,000,000 8 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "**AT1 Notes**") of the Company (the "**Listing Particulars**"). The Historical Financial Information has been prepared on the basis of the accounting policies set out in Note 3 to the Historical Financial Information. This report is required by Rule 2A.11.1 of the Listing and Admission to Trading - Rules of the Global Exchange Market of the Irish Stock Exchange plc (the "**GEM Rules**") and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility which we may have to those to whom this report is addressed and for any responsibility arising under applicable law to investors purchasing the AT1 Notes in reliance on this report, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with rules 2A.13.1 and 2C.7.3 of the GEM Rules, consenting to its inclusion in the Listing Particulars.

Responsibilities

The Company is responsible for preparing the Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the Historical Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Historical Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Historical Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the Listing Particulars dated 8 February 2016, a true and fair view of the state of affairs of CYBI as at the dates stated and of its profits, cash flows and statement of changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

We are responsible for this report as part of the Listing Particulars and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Listing Particulars in compliance with rule 2A.13.1 of the GEM Rules.

Yours faithfully

Ernst & Young LLP

DIRECTORS AND CORPORATE GOVERNANCE

1. DIRECTORS

The Issuer's directors are:

Name	Age	Position	Date Appointed
James Pettigrew	57	Chairman, Non-executive Director	27 August 2015
David Duffy	54	Chief Executive Officer	29 September 2015
Ian Smith	49	Chief Financial Officer	27 August 2015
Debbie Crosbie.....	45	Chief Operating Officer	27 August 2015
David Bennett	53	Independent Non-executive Director, Deputy Chairman	22 October 2015
Richard Gregory OBE	61	Senior Independent Non executive Director	29 September 2015
David Allvey	70	Independent Non-executive Director	29 September 2015
David Browne	58	Independent Non-executive Director	29 September 2015
Adrian Grace	52	Independent Non-executive Director	29 September 2015
Barbara Ridpath	59	Independent Non-executive Director	29 September 2015
Teresa Robson-Capps	60	Independent Non-executive Director	29 September 2015
Alex Shapland	55	Independent Non-executive Director	29 September 2015

2. OTHER DIRECTORSHIPS

- 2.1 The companies and partnerships of which the directors are, or have been, within the past five years, members of the administrative, management or supervisory bodies or partners (other than, where applicable, directorships held in the Issuer and/or CYBG Group) are as follows:

Directors

Name	Current directorships/ partnerships	Previous directorships/ partnerships
James Pettigrew	Crest Nicholson Holdings PLC Aberdeen Asset Management PLC The Edinburgh Investment Trust PLC RBC Europe Limited	Hermes Fund Managers Limited AON UK Limited
David Duffy	-	Allied Irish Banks PLC
Debbie Crosbie	Skidz Limited	Scottish Court Service
Ian Smith.....	67 Pall Mall Limited	Deloitte LLP
David Bennett	Ashmore Group PLC Paypal (Europe) S.à.r.l et Cie S.C.A. Jerrold Holdings Limited Homeserve Membership Ltd Cheshire Mortgage Corporation Limited	Easyjet plc Bank of Ireland (UK) PLC Pacnet Ltd CMC Markets PLC Clarity Commerce Solutions Lex Futura Limited (Dissolved) David Bennett Advisory Ltd
Richard Gregory	Richard Gregory Consulting Limited Sheffield Children's Hospital NHS Foundation Trust Derbyshire Healthcare NHS Foundation Trust	Chesterfield Royal Hospital NHS Foundation Trust Science City York Limited Derbyshire Health and Wellbeing Board The Foundation Trust Network
David Allvey.....	Costain Group plc The Costain Charitable Foundation Aviva Life & Pensions UK Limited Friends Annuities Limited Friends Life and Pensions Limited Friends Life Limited Friends Life Services Limited Friends Provident International Limited Aviva Annuity UK Limited Aviva Life Holdings UK Limited Aviva Life Services UK Limited	Intertek Group plc Arena Coventry Limited Thomas Cook Group plc Friends Life FPG Limited William Hill plc Friends Life Holdings plc Friends Life Group Limited
Adrian Grace.....	Aegon UK Corporate Services Limited Aegon UK Services Limited	Scottish Financial Enterprise Guardian Assurance Limited

Name	Current directorships/ partnerships	Previous directorships/ partnerships
	Scottish Equitable plc Aegon UK IT Services Limited Scottish Equitable Holdings Limited Aegon Investment Solutions Ltd. Aegon Investment Solutions Nominee 1 (Gross) Ltd. Aegon Investment Solutions – Nominee 2 (Net) Ltd. Aegon Investment Solutions – Nominee 3 (ISA) Ltd. Aegon UK Plc Aegon Holdings (UK) Limited Aegon Pension Trustee Limited Aegon UK Property Fund Limited Scottish Equitable (Managed Funds) Limited Scottish Equitable Life Assurance Society Aegon SIPP Nominee Ltd Aegon Platform Services Limited Aegon SIPP Guarantee Nominee Limited Newcastle Property Developments (One) Limited Newcastle Property Developments (Two) Limited Aegon NV Momentum Group Limited Origen Trustee Services Limited	Guardian Linked Life Assurance Limited Guardian Pensions Management Limited Guardian Financial Services Limited Aegon EDC Limited Guardian Companies Services Limited Guardian Nominees Limited Think Synergy Limited Origen Limited Origen Financial Services Limited Positive Solutions (Financial Services) Ltd. Intrinsic Financial Services Limited Aegon UK Direct Limited (Dissolved) Aegon Benefit Solutions Limited (Dissolved) Aegon UK Distribution Holdings Limited (Dissolved) Noah Financial Services Ltd. (Dissolved) Scottish Equitable Finance Limited (Dissolved) Scottish Equitable International Holdings Plc (Dissolved) Aegon Ireland plc
David Browne	Blue Island Residents Association Limited Pinnacle Partners Limited London Youth Rowing Limited	ED&F Man Trade Finance Limited (Dissolved) ED&F Man Treasury Limited (Dissolved) ED&F Man Produce Limited (Dissolved) ED&F Man Holco Limited (Dissolved)
Barbara Ridpath	Charitable Trustee – Chatham House, The Royal Institute of International Affairs Charitable Trustee – Capital Mass	The International Centre for Financial Regulation (Dissolved)
Teresa Robson-Capps	ACS Clothing Group Limited Broker Network Holdings Limited Payment Shield Group Holdings Limited Towergate Partnershipco Ltd (in Liquidation) TIG Topco Ltd TIG Midco Ltd TIG Finco Plc Towergate Insurance Limited	PowerPlace Insurance Services Limited
Alex Shapland	Littleton Consulting Limited UKMentors Ltd Community Action Hampshire Zion Arts Centre Limited	PricewaterhouseCoopers LLP

2.2 Save as disclosed in this paragraph, none of the directors has any potential conflicts of interests between their duties to the Issuer and their private interests or other duties. Jim Pettigrew is a non-executive director of RBC Europe Limited which is a manager of the Global Offer.

2.3 The business address for each of the directors is 20 Merrion Way, Leeds, LS2 8NZ.

3. CORPORATE GOVERNANCE

The Board is committed to the highest standards of corporate governance. As of the date of these Listing Particulars, the Board complies and, on and following Admission, intends to continue to comply with the requirements of the UK Corporate Governance Code (the "**Code**"). The Issuer will report to its shareholders on its compliance with the Code in accordance with the Listing Rules.

3.1 **Board Committees**

Consistent with the recommendations of the Code, the Board has established Governance and Nomination, Remuneration, Audit and Risk Committees, each with formally delegated duties and responsibilities with written terms of references. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

(a) *Governance and Nomination Committee*

The Governance and Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make up of the Board. The Governance and Nomination Committee is responsible for evaluating the balance of skills, experience, independence and knowledge on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Governance and Nomination Committee also considers succession planning, taking into account the skills and expertise that will be needed on the Board in the future.

The Code provides that a majority of the members of a company's Nomination Committee should be independent non-executive directors.

The Issuer's Governance and Nomination Committee is composed of four members, namely Richard Gregory, Barbara Ridpath, Alex Shapland and David Bennett who are independent non-executive directors. The chairman of the Governance and Nomination Committee is Barbara Ridpath. The Issuer therefore considers that it complies with the Code recommendations regarding the composition of a company's Nomination Committee.

The Governance and Nomination Committee will meet at least twice a year and otherwise as required.

(b) *Remuneration Committee*

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on CYBG Group's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors within CYBG Group, including pension rights and any compensation payments and determining the remuneration arrangements of CYBG Group senior management who sit below Board level.

The Board itself will determine the remuneration of non-executive directors within the limits set out in the Articles. No director or senior manager shall be involved in committee decisions as to his or her own remuneration.

The Code provides that the Remuneration Committee should consist of at least three members who are all independent non-executive directors. In addition, the Chairman of the Issuer may be a member of, but not chair, the Remuneration Committee if he/she was considered independent on appointment as Chairman.

Following the Demerger, the membership of the Issuer's Remuneration Committee will comprise four non-executive directors namely Adrian Grace, David Browne, James Pettigrew, the Chairman of the Issuer and David Bennett. The chairman of the Remuneration Committee is Adrian Grace. The Issuer therefore considers that following the Demerger it will comply with the Code recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee will meet at least four times a year and otherwise as required.

(c) *Audit Committee*

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Issuer's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Issuer's internal audit activities, internal controls and risk management systems. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Code recommends that the Audit Committee should comprise of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The membership of the Issuer's Audit Committee comprises five independent non-executive directors (namely, David Allvey, David Browne, Richard Gregory, Teresa Robson-Capps and David Bennett), all of whom are considered by the Board to have recent and relevant financial experience. The chairman of the Audit Committee is David Allvey. The Issuer therefore considers that it complies with the Code recommendations regarding the composition of the Audit Committee.

The Audit Committee will meet at least four times a year and otherwise as required and will meet jointly with the Risk Committee at least annually.

(d) *Risk Committee*

The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of CYBG Group and future risk strategy, reviewing and approving various formal reporting requirements, promoting a risk awareness culture within CYBG Group and ensuring that CYBG Group's strategy, principles, policies and resources are aligned to its risk appetite, as well as to regulatory and industry best practices.

The membership of the Issuer's Risk Committee comprises six independent non-executive directors (namely, Richard Gregory, David Allvey, David Browne, Barbara Ridpath, Alex Shapland and David Bennett). The chairman of the Risk Committee is Richard Gregory.

The Risk Committee will meet at least four times a year and hold a joint meeting with the Audit Committee at least annually.

DETAILS OF THE DEMERGER AND COMPANY CAPITAL REDUCTION

1. DETAILS OF THE DEMERGER

1.1 *Introduction and Effects of the Demerger*

The Demerger is the separation of CYBG Group's operations from the remaining NAB businesses, to form two independent businesses (each of which will be held under a separate listed company). The Demerger involved NAB demerging 75 per cent. of the Ordinary Shares to NAB shareholders. In conjunction with the Demerger all of the remaining 25 per cent. of the Ordinary Shares have been sold by NAB to institutional and certain other investors (the "**Global Offer**").

The Demerger was effected by way of a scheme of arrangement between NAB and the NAB shareholders (the "**Scheme**"), a related capital reduction of NAB (the "**NAB Capital Reduction**") and a transfer by NAB of the ownership of CYBI (together with its subsidiaries, including Clydesdale Bank) to the Issuer in consideration for the issue of Ordinary Shares to or for the benefit of the NAB shareholders and to NAB (for the purposes of the Global Offer). Accordingly, upon implementation of the Demerger, the Issuer has become the new holding company for CYBG Group.

The Scheme and the NAB Capital Reduction were approved by NAB shareholders on 27 January 2016 and after its confirmation by the Supreme Court of Australia on 1 February 2016, the Scheme became effective and binding on all the NAB shareholders on 2 February 2016.

The NAB Capital Reduction has been satisfied by the distribution of Ordinary Shares or CHES Depositary Interests ("**CDIs**") under the Scheme with each NAB shareholder being entitled to one Ordinary Share or CDI (as detailed below) for every four ordinary shares in the capital of NAB (the "**NAB Shares**") they held as at 7.00 p.m. (AEDT) on the date which is the fifth Business Day after the date the Scheme becomes effective. The Scheme and the NAB Capital Reduction were implemented on the Demerger Date. Conditional dealings in the Ordinary Shares commenced on the London Stock Exchange on 3 February 2016 and deferred settlement trading in the CDIs commenced on the Australian Securities Exchange ("**ASX**") on 4 February 2016. Admission became effective and unconditional dealings in the Ordinary Shares commenced on the London Stock Exchange at 8.00 a.m. (London time) on 8 February 2016. It is expected that normal settlement trading of the CDIs will commence on ASX on or around 17 February 2016.

Following the Demerger, the Issuer will operate on a standalone basis from NAB (other than in respect of certain transitional arrangements outlined in "*Information on CYBG Group—Relationship with NAB*"), as an independent publicly listed company with its own independent board of directors and management. NAB will continue to operate its other existing businesses and remain listed on the ASX.

1.2 **Implementation of the Demerger**

On the Demerger Date, the Scheme has been implemented and NAB has reduced its share capital pursuant to the NAB Capital Reduction.

In accordance with the terms of the Sale and Purchase Agreement (as described further in "*Material Contracts*"), NAB has transferred CYBI shares to the Issuer in consideration for the allotment and issue by the Issuer of:

- 659,486,442 Ordinary Shares (representing 75 per cent. of the issued share capital of the Issuer immediately following Demerger) to or for the benefit of the NAB shareholders; and
- 219,788,814 Ordinary Shares (representing, when taken together with NAB's existing shareholding in the Issuer immediately prior to the Demerger, 25 per cent. of the issued share capital of the Issuer immediately following Demerger) to NAB, which have been sold by NAB to institutional and other investors.

2. DETAILS OF THE ISSUER CAPITAL REDUCTION

Following implementation of the Demerger, it is proposed that the share capital of the Issuer will be reduced to create distributable reserves in the Issuer by reducing the "nominal" or "par" value of each Ordinary Share from £1.25 to 10 pence and the aggregate amount of such reduction being credited to distributable reserves (the "**Issuer Capital Reduction**"). The nominal value of a share does not reflect its market value and the nominal value of an Ordinary Share is not intended or expected to be reflective of its trading price or the market capitalisation of the Issuer.

If implemented, the Issuer Capital Reduction will create distributable reserves for the Issuer of approximately £1,011 million (based on there being 879,315,256 Ordinary Shares on issue at the date on which the Issuer Capital Reduction becomes effective). The distributable reserves created, being in aggregate the amount by which the "nominal" or "par" value of the Ordinary Shares is reduced pursuant to the Issuer Capital Reduction, will provide the Issuer with flexibility to pay dividends in the future if appropriate or absorb any impairments in the value of its assets should this occur. The Issuer Capital Reduction is not expected to have any impact on the market value of the Ordinary Shares or CDIs.

The Issuer Capital Reduction was approved by NAB, as sole shareholder of the Issuer, by way of special resolution passed on 20 November 2015. As the NAB shareholders were to become the shareholders of the Issuer if the Demerger was implemented, confirmatory approval of the NAB shareholders in relation to the Issuer Capital Reduction was sought and obtained at the General Meeting on 27 January 2016.

The implementation of the Issuer Capital Reduction is conditional upon:

- implementation of the Demerger;
- confirmation of the Issuer Capital Reduction by the UK Court at a hearing at the Companies Court, being a court within the Chancery Division of the High Court of Justice in England and Wales, expected to occur on 10 February 2016; and
- the registration by the Registrar of Companies in England and Wales of an office copy of the Court Order confirming the Issuer Capital Reduction and of the related statement of capital.

The Issuer Capital Reduction will become effective when the Court Order (including a copy of the related statement of capital) has been duly delivered for registration to, and registered by, the Registrar of Companies in England and Wales. This is expected to occur on 11 February 2016.

DESCRIPTION OF THE ORDINARY SHARES

Set out below is a description of the principal rights attaching, as at the date of these Listing Particulars, to the ordinary shares that will be issued in the event that the Notes are converted in accordance with their terms.

Share Capital

The issued and fully paid share capital of the Issuer as at the date hereof is:

Class	Issued and fully paid		
	Nominal Value	Number	Amount
Ordinary	£1.25 each	879,315,256	£1,099,144,070

Articles of Association

The Issuer's articles of association (the "**Articles of Association**") were adopted by special resolution of the Issuer on 20 November 2015 with effect on and from implementation of the Demerger. A summary of the material provisions of the Articles of Association in respect of the Ordinary Shares is set out below.

Voting Rights

Subject to any special terms as to voting for the time being attached to any class of shares (as to which there are none at present) and subject to disenfranchisement in the event of non payment of any call or other amount due and payable in respect of any share or non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares, on a show of hands every member present in person or by proxy has one vote and on a poll every member present in person or by proxy has one vote for every share of which he is a holder.

Governing Law

The Articles of Association and the laws of England and Wales govern the relationship between the Issuer and its members. The Articles of Association, the laws of England and Wales and, for so long as the Issuer is listed and the CDIs remain quoted on the ASX, the ASX settlement operating rules govern the relationship between holders of the CDIs and the Issuer.

The governing law provisions of the Articles of Association will apply, or will continue to apply, as and to the extent applicable, to any member who becomes a holder of a CDI through conversion of Ordinary Shares into CDIs and to any holder of a CDI who becomes a member through conversion of CDIs into Ordinary Shares.

Dividends

Subject to the Companies Act 2006 and the Articles of Association, the Issuer may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends. A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors and no dividend may be declared or paid unless it is in accordance with members' respective rights.

Unless the members' resolution to declare or directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise, it must be paid by reference to each members' holdings of shares on the date of the resolution or decision to declare or pay it.

Subject to the provisions of the Companies Act 2006 and rights attached to shares, the Issuer or the directors may fix any date as the record date for a dividend. The record date may be on or at any time before or after a date on which the dividend is declared or paid.

Except as otherwise provided by the Articles of Association or the rights attached to, or the terms of issue of, any shares, all dividends must be declared and paid according to the amounts paid up on the shares on which the dividend is paid and apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Except as otherwise provided by the rights attached to the shares, the Board may determine (i) the currency in which dividends shall be declared; (ii) the currency or currencies in which any dividends declared shall be paid; and (iii) how and when any currency exchange calculations shall be carried out and how any associated costs shall be met.

All dividends or other sums which are payable in respect of shares and unclaimed after having been declared or become payable may be invested or otherwise made use of by the directors for the benefit of the Issuer until claimed. If 12 years have passed from the date on which a dividend or other sum became due for payment and the distribution recipient has not claimed it, the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by the Issuer.

The directors may pay any dividend (including any dividend payable at a fixed rate) if it appears to them that the profits available for distribution justify the payment. If the Issuer's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non preferred rights if, at the time of payment, any preferential dividend is in arrears.

Subject to the Articles of Association, the Issuer may, by ordinary resolution on the recommendation of the directors, decide to pay all or part of a dividend or distribution payable in respect of a share by transferring non cash assets of equivalent value (including shares or other securities in any company).

Subject to the Companies Act 2006 and the Articles of Association, the Issuer may by ordinary resolution offer to shareholders the right to elect to receive, in lieu of a dividend, an allotment of new ordinary shares credited as fully paid.

Return of Capital

A liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Issuer and may, for that purpose, value any assets and determine how the division is carried out as between the members or different classes of members.

Method of Payment

The Issuer may pay any dividend, interest or other amount payable in respect of a share in the Issuer as the Board may decide in its absolute discretion. If the Board decides that a payment will be made by bank or other funds transfer system to an account nominated by a person entitled to the payment, but no such account is nominated by the relevant person or the transfer into a nominated account is rejected or refunded, the Issuer may credit the amount payable to an account of the Issuer to be held until the person entitled to the payment nominates a valid account. An amount so credited will be treated as having been paid to the person entitled to the payment at the time it is credited. The Issuer will not be a trustee of the money and no interest will accrue on the money.

Transfer of Shares

- (a) Subject to the Articles of Association, shares of the Issuer are free from any restriction on transfer. In exceptional circumstances approved by the FCA, the directors may refuse to register a transfer of certificated shares provided that such refusal would not disturb the market in those shares.
- (b) Certificated shares may be transferred by means of an instrument of transfer in writing in any usual form or any other form approved by the directors, which is executed by or on behalf of:
 - (i) the transferor; and
 - (ii) (if any of the shares is partly paid) the transferee.
- (c) Subject to the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) (including any modification, re enactments or substitute regulations for the time being in force) (the "**Regulations**"), the transferor remains the holder of a share until the transferee's name is entered in the register of members as the holder of it.

- (d) The directors may also, in their absolute discretion, refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment of a share unless all of the following conditions are satisfied:
- (i) it is in respect of only one class of shares;
 - (ii) it is in favour of (as the case may be) a single transferee or renounee or not more than four joint transferees or renounee;
 - (iii) it is duly stamped (if required); and
 - (iv) it is delivered for registration to the registered office of the Issuer or such other place as the directors may decide, accompanied by the certificate for the shares to which it relates (except in the case of a person to whom the Issuer is not required by sections 769, 776, 777 or 778 of the Companies Act 2006 to issue a certificate, or in the case of a renunciation) and such other evidence as the directors may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.
- (e) If the directors refuse to register the transfer of a certificated share or renunciation of a renounceable letter of allotment, the instrument of transfer or renunciation must be returned to the transferee or renounee as soon as practicable and in any event within two months of the date on which the transfer or renunciation was lodged with the Issuer with the notice of refusal and reasons for refusal unless they suspect that the proposed transfer or renunciation may be fraudulent.
- (f) In accordance with and subject to the provisions of the Regulations, the operator of the relevant system ("**Operator**") shall register a transfer of title to any uncertificated share or any renounceable right of allotment of a share which is a participating security held in uncertificated form unless the Regulations permit the Operator of the relevant system to refuse to register such transfer in certain circumstances in which case the said Operator may refuse such registration.
- (g) In accordance with the Regulations, if the Operator refuses to register the transfer of an uncertificated share or of any such uncertificated renounceable right of allotment of a share it must, as soon as practicable and in any event within two months after the date on which the relevant system member instruction or issuer instruction (as the case may be) was received by the Operator, send notice of the refusal to the relevant system member or participating issuer (as the case may be).
- (h) In accordance with and subject to the provisions of the Regulations, where title to an uncertificated share is transferred by means of a relevant system to a person who is to hold such share in certificated form after such transfer, the Issuer as participating issuer must register the transfer in accordance with the relevant Operator instruction, but so that the Issuer may refuse to register such a transfer in any circumstance permitted by the Regulations.
- (i) In accordance with the Regulations, if the Issuer as participating issuer refuses to register the transfer of title to an uncertificated share transferred by means of a relevant system to a person who is to hold such share in certificated form after such transfer, it must, as soon as practicable and in any event within two months after the date on which the Operator instruction was received by the Issuer, send notice of the refusal to the transferee.
- (j) The Issuer (at its option) may or may not charge a fee for registering the transfer of a share or the renunciation of a renounceable letter of allotment or other document or instructions relating to or affecting the title to a share or the right to transfer it or for making any other entry in the register.

Variation of Rights

Subject to the Companies Act 2006, the rights attached to a class of shares may be varied or abrogated (whether or not the Issuer is being wound up) either (i) with the consent in writing of the holders of at least three-quarters in nominal value of the issued shares of that class (excluding any shares of that class

held as treasury shares) or (ii) with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles of Association.

The rights attached to a class of shares are not, unless otherwise expressly provided for in the rights attaching to those shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Issuer of its own shares in accordance with the Companies Act 2006.

Redeemable Shares in the Issuer

Subject to the Companies Act 2006, the Issuer may issue shares which are to be redeemed or are liable to be redeemed at the option of the Issuer or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

Winding Up

On a voluntary winding up of the Issuer, the liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Issuer, whether or not the assets consist of property of one kind or of different kinds and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he, with the like sanction, shall determine. For this purpose the liquidator may set the value he deems fair on a class or classes of property and determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

Admission to Trading of the Ordinary Shares

The Ordinary Shares have a listing in the United Kingdom and the CDIs have a listing in Australia.

In the United Kingdom, the Ordinary Shares currently in issue are listed on the premium segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities. The London Stock Exchange dates back to 1801 and the London Stock Exchange's regulated market is regulated by the FCA.

On 5 February 2016, the daily trading volume of all order book trading on the London Stock Exchange was approximately 1,296,244,327 shares. Price and trading information is available on the London Stock Exchange's website which is continually updated with a 15 minute time delay. The trading prices of the Ordinary Shares and daily trading volumes are published on the London Stock Exchange's website and in the London Stock Exchange's Daily Official List. The ISIN of the Ordinary Shares is GB00BD6GN030. Further information about the London Stock Exchange can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.

In Australia, the Issuer has been granted admission to the ASX's Official List as an ASX foreign exempt listing and CDIs representing the Ordinary Shares are quoted for trading on the ASX. The ASX as a national exchange dates back to 1987 and the ASX's regulated market is regulated by the Australian Securities and Investments Commission.

On 5 February 2016, the daily trading volume of all order book trading on the ASX was approximately 1,021,722 equity trades. Price and trading information is available on the ASX's website which is updated at 5pm (AEDT) on each trading day. The trading prices of the CDIs and daily trading volumes are published on the ASX's website and in the ASX's Daily Official List. Further information about the ASX can be obtained from the website of the ASX at www.asx.com.au.

TAXATION

UNITED KINGDOM TAXATION CONSIDERATIONS

The following is a summary of certain United Kingdom stamp duty and stamp duty reserve tax considerations and the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. Save where expressly stated to the contrary, it is based on current law and the published practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and who hold the Notes as investments. Certain classes of persons such as dealers, certain professional investors or persons connected with the Issuer may be subject to special rules not covered by this summary. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that might be relevant to a prospective purchaser. Holders who are in any doubt as to their tax position should consult their professional advisers. Holders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

UK Withholding Tax

The Taxation of Regulatory Capital Securities Regulations 2013 (the "2013 Regulations")

Interest on the Notes may be paid without withholding or deduction for or on account of United Kingdom income tax if the Notes each constitute a "regulatory capital security" for the purposes of 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.

The Notes each constitute a "regulatory capital security" for the purposes of the 2013 Regulations provided that the Notes qualify, or have qualified, as Additional Tier 1 instruments under Article 52 of the Commission Regulation (EU) No. 575/2013 and form, or formed, a component of Additional Tier 1 capital for the purposes of Commission Regulation (EU) No 575/2013.

If the exemption under the 2013 Regulations does not apply, interest on the Notes that has a United Kingdom source may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief 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 under United Kingdom law.

Other considerations

Where interest has been paid under deduction of United Kingdom income tax, Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

Stamp duty and stamp duty reserve tax

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise on the issue or transfer of the Notes provided that the Notes each constitute a "regulatory capital security" for the purposes of the 2013 Regulations (see above) and there are no arrangements, the main purpose, or one of the main purposes, of which is to obtain a tax advantage as a result of the application of the 2013 Regulations in respect of the Notes.

No United Kingdom stamp duty or stamp duty reserve tax will be payable by a Holder on a cash redemption of the Notes in accordance with the Conditions.

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise for a Holder on the redemption of the Notes, and the issue of any Conversion Shares, under an Automatic Conversion of the Notes into Conversion Shares in accordance with the Conditions.

United Kingdom stamp duty and stamp duty reserve tax may be payable in relation to a Conversion Shares Offer.

The above description of the United Kingdom stamp duty and stamp duty reserve tax position does not deal with the issue, transfer or agreement to transfer of any Approved Entity Shares.

OTHER TAX CONSIDERATIONS

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.

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.

MATERIAL CONTRACTS

1. Demerger Implementation Deed

On 27 November 2015, the Issuer, CYBI, Clydesdale Bank and NAB entered into the demerger implementation deed ("**Demerger Implementation Deed**") which sets out the steps required to be taken by each of the Issuer and NAB to carry into effect (i) a scheme of arrangement under section 411 of the Corporations Act 2001 of Australia between NAB and the NAB shareholders, (ii) the NAB Capital Reduction in accordance with the terms of a resolution approved by the NAB shareholders in a general meeting, (iii) the Global Offer and other steps necessary to give effect to the Demerger.

The key terms of the Demerger Implementation Deed are as follows:

(a) *Obligations of NAB*

NAB agrees to take all steps reasonably required to give effect to the Demerger, including:

- convening the meeting of the NAB shareholders in relation to the Scheme in accordance with the orders of the Supreme Court of Victoria and convening the meeting of NAB shareholders in relation to the NAB Capital Reduction to be held on the same day;
- assisting the Issuer with the preparation of the application to the ASX for the ASX listing of the Issuer as an ASX Foreign Exempt Listing and for official quotation of the CDIs on the ASX;
- assisting the Issuer with the preparation of the Equity Prospectus, and taking such actions as may be necessary to implement the Global Offer;
- until the Demerger Date, using its reasonable endeavours to ensure the satisfaction of any reasonable requirements of the FCA, London Stock Exchange or ASX in relation to the London Stock Exchange listing of the Issuer or the ASX listing of the Issuer (as applicable), that the FCA and the London Stock Exchange approve the London Stock Exchange listing of the Issuer and the ASX approves the ASX listing of the Issuer, and that trading in the Ordinary Shares commences on the London Stock Exchange on the date of publication of the Equity Prospectus and that trading in CDIs commences on the ASX following the Scheme effective date;
- if the NAB Capital Reduction and Scheme are approved, applying to the Supreme Court of Victoria for approval of the Scheme, and (if the Scheme is approved) lodging the Court order with the Australian Securities and Investments Commission; and
- if the Scheme becomes effective:
 - resolving to effect the NAB Capital Reduction; and
 - on the Demerger Date:
 - transferring the CYBI shares to the Issuer in accordance with the Sale and Purchase Agreement; and
 - undertaking the NAB Capital Reduction, doing everything necessary for the entitlement of each Scheme participant to be satisfied in accordance with the terms of the Scheme and doing everything reasonably necessary to effect the distribution of Ordinary Shares or CDIs to Scheme participants (or the sale agent in respect of certain types of NAB shareholders who elect to participate in a sale facility (the "**Sale Facility**"))

Shareholders")) and the transfer of Ordinary Shares sold under the Global Offer to the underwriters.

(b) *Obligations of the Issuer and CYBI*

The Issuer and CYBI each agrees to take all steps reasonably required to give effect to the Demerger, including:

- preparing the Equity Prospectus, including by ensuring its compliance with applicable laws and regulations, and lodging the Equity Prospectus;
- preparing and lodging the application for the listing of Ordinary Shares in the premium listing segment of the United Kingdom Listing Authority ("UKLA") Official List and for such shares to be admitted to trading on the London Stock Exchange's main market for securities, and preparing and lodging all other relevant documents required for the purpose of admission;
- preparing and lodging the application for the ASX listing of the Issuer as an ASX Foreign Exempt Listing and for official quotation of the CDIs on the ASX;
- until the Demerger Date, using its best endeavours to ensure that the satisfaction of any FCA, London Stock Exchange or ASX requirements in relation to the London Stock Exchange listing or the ASX listing of the Issuer, that the FCA and London Stock Exchange approve the London Stock Exchange listing of the Issuer, and that conditional trading in Ordinary Shares commences on the London Stock Exchange on the date of publication of the Equity Prospectus and that trading on a deferred settlement basis in the CDIs commences on the ASX following the Scheme effective date;
- taking such action requested by NAB as may be necessary in order to implement the Global Offer; and
- if the Scheme becomes effective,
 - on (or where applicable, as soon as practicable following) the Demerger Date, doing everything necessary for the entitlement of each Scheme participant to be satisfied in accordance with the terms of the Scheme and doing everything reasonably necessary to effect the distribution of Ordinary Shares and CDIs to Scheme participants or the authorised nominee, as applicable (or the sale agent in respect of Sale Facility Shareholders); and
 - on, or as soon as practicable following, the Demerger Date, registering or causing to be registered the Scheme participants or other relevant parties as holders of Ordinary Shares or CDIs (as applicable).

(c) *Other provisions*

The Demerger Implementation Deed also contains provisions in respect of:

- following the Demerger Date:
 - obligations on NAB and the Issuer to each procure that the sale agent sells the Ordinary Shares or CDIs referable to Sale Facility Shareholders and pays the proceeds of that sale; and
 - obligations on the Issuer to forward to Scheme participants or other relevant parties CREST account statements, holding statements or share certificates for Ordinary Shares or CDIs (as applicable) to which they are entitled.

- general obligations for each of NAB and the Issuer to do all things necessary to implement and give effect to the Demerger Implementation Deed, the Scheme, the Demerger, the listing of the Ordinary Shares and the Global Offer, and for each party to assist the other to complete the obligations imposed by the Demerger Implementation Deed;
- the rights of each of NAB and the Issuer to terminate the Demerger Implementation Deed if the Scheme has not become effective on or before the 31 August 2016, or such later date as is agreed by NAB and the Issuer; and
- each of NAB and CYBG Group, preparing and entering into agreements at or prior to the Demerger, necessary to allow the repurchase of existing CYBG Group Additional Tier 1 Securities and Tier 2 Notes held by NAB and the issuance of the Notes and the £475,000,000 5 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026 (the "**New Tier 2 Notes**") by the Issuer on the Demerger Date, in the case of the Notes, subject to the concurrent exercise of the options granted by NAB in CYBG Group's favour, and the preparation of these Listing Particulars and of the listing document for the New Tier 2 Notes to enable the listing of such securities on the official lists of the Irish Stock Exchange and UKLA, respectively.

2. ***Demerger Deed***

On 27 November 2015, the Issuer and NAB entered into the demerger deed ("**Demerger Deed**") to facilitate the orderly separation of CYBG Group from NAB and the transition and emergence of CYBG Group as an independently owned corporate group, in accordance with the fundamental demerger principle (the "**Demerger Principle**") as follows:

- The Issuer will have:
 - the entire economic benefit and risk and liabilities of the Issuer post-Demerger business and former Issuer businesses as if CYBG Group had owned and operated the Issuer post-Demerger business and former Issuer businesses at all times; and
 - none of the economic benefit or risk or liabilities of NAB post-Demerger or former NAB businesses; and
- NAB will have:
 - the entire economic benefit and risk and liabilities of NAB post-Demerger business and former NAB businesses as if the post-Demerger group had owned and operated the NAB post-Demerger business and former NAB businesses at all times; and
 - none of the economic benefit or risk or liabilities of the Issuer post-Demerger or former Issuer businesses.

The key terms of the Demerger Deed are as follows:

Rights against the other party

The parties agree that the Demerger and transactions giving effect to the Demerger will not give rise to any rights or obligations of a party (or any member of its group) as against the other party (or any member of its group) except those expressly contained in the Demerger Deed, the transaction documents or any other agreement entered into between the parties after the date of the Demerger Deed.

To the extent permitted by law, and except as otherwise provided in the Demerger Deed, both parties (on their own behalf and on behalf of their group) release the other (and their group) from any liability arising directly or indirectly from or in respect of the Demerger (including the

Scheme and the NAB Capital Reduction), the Admission, the Global Offer or the operation of the post-Demerger businesses or former businesses, except as provided in the Demerger Deed and the transaction documents.

Indemnities

To the extent permitted by law, both parties indemnify the other against claims brought by their respective group entities in relation to conduct covered by the above releases, except as provided in the Demerger Deed and the transaction documents or any other agreement entered into between the parties after the date of the Demerger Deed.

The parties also agree to indemnify each other against, among other things, liabilities arising from successful claims in respect of the scheme booklet for the Demerger, the Equity Prospectus, marketing materials and the listing memoranda. In the case of NAB, the indemnity only applies to the extent that the failure or breach is caused by or arises in relation to, broadly, certain information relating to NAB and the NAB Shares published in connection with the Demerger and the Global Offer, but does not apply where the failure or breach is or was the result of any wilful misconduct, negligent act or omission or fraud of the Issuer. In the case of the Issuer, the indemnity only applies to the extent that the failure or breach is caused by or arises in relation to, broadly, information relating to CYBG Group and Ordinary Shares published in connection with the Demerger and the Global Offer, but does not apply where the failure or breach is or was the result of any wilful misconduct, negligent act or omission or fraud of NAB.

Demerger costs

Both parties agree to use best endeavours to proactively manage Demerger costs to ensure that (as far as reasonably practicable) costs are kept within the Demerger budget agreed by the parties. The parties have agreed a Demerger budget allocating all material known and reasonably anticipated Demerger costs between them, and procedures to determine new or additional costs not provided for in the Demerger budget. Both parties take responsibility for the demerger costs allocated to them and NAB indemnifies the Issuer in relation to the Demerger costs for which they are responsible.

Treatment of required assets

The Demerger Deed contains a regime which provides for the:

- transfer or grant of assets primarily relating to the NAB Group (post-Demerger) to the NAB Group; and
- transfer or grant of assets primarily relating to CYBG Group to the Issuer,

in certain circumstances where either party identifies such assets in the period of 24 months from completion of the Demerger, and where such assets were either transferred by mistake or not transferred to the correct group member, if the parties agree that an asset should be transferred, they must agree in good faith the terms of the transfer of that asset and the fair transfer value of that asset (having regard to certain factors specified in the Demerger Deed).

Contracts

The parties have agreed to use reasonable endeavours to procure that:

- they obtain or retain the full benefit and all risks and liabilities of contracts exclusively relating to their business; and
- shared contracts are separated to allow both groups to continue to benefit from them.

Subject to certain limitations, NAB and the Issuer each agree to indemnify, and must procure that their group members indemnify, each other and each other's groups for any liabilities arising, directly or indirectly, under or in connection with, contracts assigned, novated or separated.

Intellectual property

The parties agree to do all things reasonably necessary to effect the transfer or assignment of any names (e.g. for the Issuer, "Clydesdale") to the relevant party prior to completion of the Demerger Deed, and all other things reasonably requested by the other party to assist them to perfect their interest in the relevant names.

Generally, if other intellectual property was acquired or developed primarily for the benefit of:

- CYBG Group business, then the relevant CYBG Group entity will own that intellectual property; or
- the NAB Group business (post-Demerger), then the relevant NAB Group entity will own that intellectual property.

The parties grant to each other a licence to use copyright in certain documents (e.g. manuals and policies) for the purpose of conducting the post-Demerger businesses. Subject to certain limitations, the parties release each other from liabilities arising in respect of intellectual property developed or procured for potential application within the other party's business.

Business Liabilities

Consistent with the Demerger Principle, and subject to the transaction documents, both parties accept responsibility for business liabilities of their business that remain with, or are incurred by, any member of the other party's group following completion. Both parties indemnify the other against any such liability.

Litigation

The Demerger Deed provides for the ongoing management of existing litigation matters and the management of claims arising after completion of the Demerger Deed.

Existing litigation matters (except for certain insurance claims) of CYBG Group will be managed by CYBG Group, at its cost. Existing litigation matters of NAB will be managed by NAB, at its cost. Joint litigation matters are to be conducted by the party with primary responsibility for the conduct of the matter, in accordance with agreed principles (e.g. in relation to keeping the other party fully informed).

The parties will each be responsible for the management of claims brought against them after completion of the Demerger, except in certain circumstances where the subject matter of the claim brought against one party relates to the business or assets of the other party, or the claim is one in respect of which an indemnity has been provided by the other party.

Certain allegations and claims are excluded from the above regime due to the nature of the matter (e.g. allegations of fraud, dishonesty or wilful concealment).

The parties acknowledge that, in accordance with the Demerger Principle, they do not have a right to make a claim against the other party in respect of a liability arising in connection with existing litigation, except as provided in the Demerger Deed, or any other transaction document. Each party provides a reciprocal litigation indemnity in relation to existing and joint litigation matters, and other claims brought to the extent they relate to their former or post-Demerger business.

Employees

Subject to certain limited exceptions, each party agrees to be responsible for any liabilities incurred in relation to their employees where such liabilities are incurred by the other party (except for bonuses payable to their employees who have worked for the group during FY16). Each party provides a reciprocal indemnity in relation to such liabilities.

Each party has also agreed not to make offers of employment to senior employees of the other party in the 12 months following completion of the Demerger.

The Demerger Deed also provides for agreement between the parties in relation to employee incentives, superannuation and pension arrangements, including that:

- the parties will continue to maintain the existing arrangements in relation to the NAB Shares and performance rights granted to CYBG Group employees prior to completion of the Demerger under the NAB employee equity plans until such time as such NAB Shares and performance rights have vested or are no longer able to vest in accordance with their terms;
- on and from completion of the Demerger
 - other than any contributions or other amounts required to be paid to Clydesdale Bank pension schemes, NAB is responsible for making all superannuation or pension contributions in respect of any NAB employee (in that capacity); and
 - the Issuer is responsible for making or procuring that another member of CYBG Group makes all superannuation or pension contributions in respect of any CYBG Group employee (in that capacity);
- similarly, if any CYBG Group employee is a member of a superannuation plan offered by NAB, NAB and CYBG Group will co-operate to enable CYBG Group and the relevant CYBG Group employees to cease to participate in that plan with effect on and from completion of the Demerger; and
- each party agrees to be responsible for (and indemnifies the other party for) all claims made against the other party by any employees of the first party (or any trustee or administrator of the plan on their behalf), and any liability incurred by the other party arising out of, any superannuation plan offered by the other party as it applies in relation to any employee of the first party in respect of the period on and from completion of the Demerger.

Insurance

NAB agrees to maintain insurance in respect of CYBG Group business, up to completion of the Demerger. CYBG Group agrees to maintain insurance on and from completion of the Demerger in accordance with ordinary practice for a business like CYBG Group business.

NAB also agrees to maintain until completion of the Demerger (i) directors and officers insurance for each NAB Group entity and CYBG Group entity and their respective directors and officers in office at any time during the 7 years before completion of the Demerger; (ii) public offering of securities insurance for each CYBG Group entity and each CYBG Group director and officer named in the Equity Prospectus and must maintain such public offering of securities insurance for a period of no less than 7 years; and (iii) run-off crime and professional indemnity insurance for a period of no less than 7 years. NAB must also ensure that run-off cover which provides similar coverage to the terms and limits as the current directors and officers insurance is maintained for not less than 7 years after completion of the Demerger for the benefit of each covered director and officer in respect of acts or omissions occurring on or before completion of the Demerger.

Ongoing treasury arrangements

NAB and CYBG Group are party to certain capital and derivative arrangements (including CYBG Group's Additional Tier 1 Securities and Tier 2 Notes), under which (among other things) NAB has provided funding to CYBG Group and has acted as a swap counterparty for CYBG Group. NAB is also intending to provide a third-party clearing service to CYBG Group for central clearing of derivatives transactions. In the Demerger Deed, the parties have provided for agreed arrangements as to how those treasury arrangements will be dealt with post-completion of the Demerger.

In connection with the issuance by the Issuer of the Notes and New Tier 2 Notes, it is intended that a listing document for each new instrument will be approved by the relevant authority (in the case of the Notes, these Listing Particulars, as approved by the Irish Stock Exchange). The Issuer will take responsibility for the information contained therein in accordance with the applicable liability regime.

Access to records and assistance

The Demerger Deed requires each party (subject to certain limitations) to deliver to or grant the other party access to all records which exclusively relate to the business of the other party, and specified records connected with or relevant to that party's business, in accordance with the regime outlined in the Demerger Deed.

The parties will use reasonable endeavours to assist each other in relation to the preparation of their respective financial statements and regulatory reporting for the financial period (or regulatory reporting period) during which the Demerger Date occurs and any uncompleted financial statements for any earlier financial periods.

Each party provides an indemnity and release with respect to claims and liabilities arising as a result of the transfer of records and the information in those records to the other party, unless the claim or liability arises in relation to certain excluded records, the TSA or a breach of a transaction document.

Tax

Generally, all taxes arising in relation to the CYBG Group business or the NAB Group business (after the Demerger) will be borne by the person that is principally liable for the tax under the relevant law. Where appropriate, each party provides reciprocal releases and indemnities to the other party in relation to taxes levied or imposed on them (other than taxes provided for in the agreed Demerger budget or the terms of any transaction document). NAB will bear the cost of the taxes arising directly from the Demerger or the Global Offer.

Indemnity for breach of any transaction document

NAB and the Issuer agree, subject to other provisions in the transaction documents or the Demerger Deed, to indemnify each group entity of the other party against any liability to the extent incurred in connection with a breach by a CYBG Group entity or a NAB Group entity (respectively) of the Demerger Deed or a transaction document.

Relevant Conduct Matters

The Demerger Deed provides that the Conduct Indemnity Deed applies in respect of Relevant Conduct Matters. For a summary of the Capped Indemnity see: "*Information on CYBG Group—Conduct*" of these Listing Particulars.

Arrangements between NAB and CYBG Group after separation and intentions of NAB and the Issuer to further separate capital relationship

As part of the separation of NAB and CYBG Group, NAB and CYBG Group have entered into and completed certain arrangements to replace NAB's interest in CYBG Group's then existing Additional Tier 1 Securities and Tier 2 Notes, with the Notes and the New Tier 2 Notes, each issued by the Issuer on the Demerger Date and initially held by NAB.

These transactions have been conducted on market terms, with pricing agreed and terms and conditions substantially agreed by NAB and CYBG Group on 4 November 2015. The effect of these arrangements is to allow CYBG Group to optimise its regulatory position in respect of its issuances of capital securities and to provide a single issuing entity for CYBG Group's capital securities following the Demerger. In relation to the listing of the New Tier 2 Notes, a prospectus is expected to be approved by the UKLA as a prospectus issued in compliance with the Prospectus Directive for admission of the New Tier 2 Notes to listing on the Official List and to trading on the regulated market of the London Stock Exchange. The Issuer will take

responsibility for the information contained therein in accordance with the requirements of the Prospectus Rules.

Following the Demerger and the listing of the Ordinary Shares, NAB intends to re-market and sell the New Tier 2 Notes and the Notes to third party investors. NAB and the Issuer have agreed pursuant to the Demerger Deed, that the Issuer will assist NAB in the re-marketing and sale of any of its capital instruments, including the New Tier 2 Notes and the Notes. The Issuer has agreed to provide sufficient skilled resources to perform a variety of tasks to assist NAB in this process including engagement with regulators, the preparation of required documentation, participation in marketing roadshows and providing such other assistance as may be considered necessary. In particular, the Issuer will be required to prepare an offering document in connection with any remarketing of any capital instruments of CYBG Group held by NAB (including the New Tier 2 Notes and the Notes) and the Issuer will take responsibility for the information contained therein.

In order to facilitate the remarketing of the New Tier 2 Notes and the Notes, the Issuer has entered into purchase agreements with NAB and certain managers, pursuant to which it will also provide certain market standard representations and warranties and indemnities to NAB and such managers.

Any remarketing of the New Tier 2 Notes and the Notes will be carried out pursuant to the Demerger Deed and the purchase agreements, all of which have been entered into before or at Demerger and prior to Admission, and consequently the related party transactions rules contained in the Listing Rules will not be applicable to the remarketing.

Other

The Demerger Deed also contains confidentiality, dispute resolution and other general provisions.

3. **Deed Poll**

On 27 November 2015, the Issuer entered into a deed poll in favour of scheme participants and CDI holders ("**Deed Poll**") under which the Issuer has undertaken to take the steps to be performed by it under the Scheme, including applying to the FCA and the London Stock Exchange for Admission and to the ASX for the admission of the Issuer to the Official List of the ASX as an ASX Foreign Exempt Listing and for official quotation of CDIs on the ASX, issuing the CDIs and registering the transfer of Ordinary Shares or CDIs to Scheme participants and other relevant parties in respect of Sale Facility Shareholders as contemplated by the Scheme.

The Deed Poll also provides that the Issuer issues the CDIs on and subject to the terms of that deed poll. A person becoming a holder of CDIs by so doing agrees to take each CDI subject to, and be bound by, the terms of the Deed Poll.

Subject to the conditions of the Deed Poll, as a fundamental and inseparable condition of holding each CDI and the benefit of the Deed Poll, each holder of CDIs acknowledges and agrees under the Deed Poll that any rights it has in respect of each Ordinary Share the subject of each CDI held by it are subject to the exercise by any relevant authority of a resolution power and that it agrees with and is bound by the resolution powers provisions contained in the Articles of Association.

4. **Transitional Services Agreement**

Overview of agreement

On 29 January 2016 Clydesdale Bank and NAB entered into a TSA. Under the TSA, NAB has agreed to provide or procure the provision of certain transitional services to CYBG Group for an agreed term following implementation of the Demerger (subject to extension rights in accordance with the terms of the agreement). The services to be provided under the TSA are described in "*Information on CYBG Group—Relationship with NAB*". The TSA will continue until the date on which the last service term expires or is terminated in accordance with the terms of the agreement.

Overview of terms

NAB is bound to provide or procure the provision of the services to specified service standards or service levels, and must ensure that in performing the services it complies with applicable law and that the services are provided by reasonably skilled and experienced individuals. In certain circumstances, CYBG Group can also request that NAB provides services that are incidental to those provided under the agreement or additional services to those specified under the TSA. To the extent that the services are to be provided by or otherwise rely on third parties, CYBG Group must ensure it complies with any relevant terms of third party agreements relating to the provision of that service which have been disclosed or notified to it by NAB.

CYBG Group is obliged to pay fees for each service calculated in accordance with the terms of the agreement. The fees include service charges from NAB along with any third-party costs associated with the provision of the services.

The parties will agree a migration plan in relation to each TSA service, which is designed to ensure that the service can be transitioned to CYBG Group or to a third-party by the end of the relevant transitional service term. The parties must use best endeavours to complete migration of each service in accordance with the agreed migration plan prior to expiry of that service term for that service.

Where CYBG Group reasonably concludes that it will not, or there is a material risk that it will not, complete migration of a service before the end of the service term, CYBG Group may notify NAB that it wishes to extend the term in respect of that service. In that notice CYBG Group is required to specify, at the end of the extended service term, the earliest date by which CYBG Group reasonably and in good faith considers that it will be able to complete migration of the relevant service. On receipt of valid notice, NAB and CYBG Group will cooperate in good faith to agree any amendments required to the migration plan during the proposed extension to the service term. Unless migration has not occurred due to an act or omission of NAB, the fees for an extended service will increase by a prescribed percentage during the extended service term, and may do so on more than one occasion depending on the length of that extended term.

Both parties may request changes to the agreement, and must negotiate such changes reasonably. However, subject to the below neither party is required to agree to any such requested change.

NAB may require (at its own cost) that a change be made to the TSA, including the scope of the services, **provided that:** (i) such change is a consequence of a wider change being made within NAB or a necessary system or process change to enable NAB to operate its systems during the term of the agreement in a manner consistent with its business requirements or good practice and in a manner that NAB complies with applicable law; (ii) any refusal to implement the change would adversely impact NAB or any member of its group; and (iii) such change will not have a material impact on the service levels under the TSA, narrow the scope of any service, or cause CYBG Group or any service recipient to be in breach of law or incur additional costs or expenses.

If a party becomes aware of a regulatory change which necessitates or will necessitate a modification to the services, they must notify the other party. Both parties must comply with regulatory changes applicable to the other party and permit necessary changes to the provision of services in order to achieve this. In the case of a regulatory change applying to a member of CYBG Group, CYBG Group shall bear any reasonable costs and expenses relating to that regulatory change. In the case of a regulatory change applying only to NAB Group, NAB shall bear all reasonable costs in relation to that regulatory change.

Each party will allow representatives of the other party to access its IT systems and business data, to the extent necessary to enable provision and receipt of services under the TSA. Access is subject to any reasonable procedures or measures intended to protect the IT systems determined by the other party, to prevent any compromise of the security of IT systems, data or confidential information. Each party may also terminate access or remove any representative of the other party if they do not follow its reasonable directions and policies and procedures.

Both parties are bound by confidentiality obligations, which are subject to usual exceptions (e.g. where the other party provides prior written consent). Each party will agree not to use information disclosed or generated pursuant to the TSA which is not public or otherwise generally available and is of a kind such that a person who has that information would be prohibited or restricted from using it to deal in Ordinary Shares or CDIs under applicable insider dealing, market abuse or similar laws, or to use or disclose any such information in a way that amounts to market abuse under applicable insider dealing, market abuse or similar laws.

Subject to certain conventional exceptions (e.g. in instances of fraud or wilful misconduct) where both parties' liability is uncapped, the maximum liability of NAB to CYBG Group in relation to the TSA is capped at the greater of £30 million or 200 per cent. of the fees paid in the first year of the contract and the maximum liability of CYBG Group to NAB in relation to the TSA is capped at the greater of £20 million or 200 per cent. of the fees paid in the first year of the contract. To the extent possible, CYBG Group must give NAB a reasonable opportunity to remedy any breach due to a failure by NAB to provide services in accordance with the TSA before taking any action against NAB. Liability is excluded for NAB to the extent the liability is caused by a failure by CYBG Group to perform its obligations or a failure of a third party service provider. If a third party service provider's breach adversely affects the provision of services, CYBG Group may request NAB to enforce the relevant third party agreement; however NAB shall not be required to take such action unless (i) CYBG Group has suffered loss, or reasonably estimates that it will suffer loss, in excess of £25,000 as a result of the third party breach, and (ii) NAB considers acting reasonably and in good faith and having taken the advice of external legal counsel that there are reasonable prospects of such action resulting in the successful recovery of losses, and (iii) NAB considers acting reasonably and in good faith and having regard to the interests of CYBG Group, that taking such action would not be materially contrary to the interests of the NAB Group in connection with the relationship between the NAB Group and the relevant third party service provider. In the event NAB decides not to enforce a third party agreement on the basis of sub-sections (i) and (iii) in the previous sentence, the TSA includes a process for the parties to agree a reasonable "Compensation Payment" for CYBG Group.

There is flexibility for CYBG Group to terminate a TSA service at any time by providing NAB with due notice. Subject to the below, both parties may terminate the TSA or a service if the other is insolvent, or alternatively, if the other is in material breach of the TSA, and if the breach is capable of remedy, it is not remedied within a specified time. However, NAB may only exercise such termination rights where the Issuer is not in compliance with its payment obligations under the TSA and it has been given permission to terminate by an appropriate government agency.

The agreement provides for NAB to be bound by the exercise of powers by the Bank of England or other relevant resolution authority in relation to CYBG Group, and for the services to continue to be provided during the period of any resolution action (whether to the relevant service recipient or to an entity which becomes the owner of that service recipient as the result of such resolution action).

5. **Reverse Transitional Services Agreement**

Overview of agreement

On 29 January 2016 Clydesdale Bank and NAB entered into a reverse transitional services agreement ("**Reverse Transitional Services Agreement**"). Each of the transitional arrangements agreed between NAB and Clydesdale Bank under the Reverse Transitional Services Agreement will be accompanied by a plan to migrate from the transitional arrangement to a NAB standalone solution within an agreed timeframe. It is intended that CYBG Group will no longer be providing transitional services to NAB by 31 December 2018. The transitional services that are proposed to be provided by CYBG Group to support NAB's London branch (with the exception of the CRE business) are limited to technology infrastructure services including hosting, data centre and network connectivity services in the UK.

Overview of terms

The services under the Reverse Transitional Services Agreement ("**RTSA**") will be provided on terms largely equivalent to those included in the TSA governing the provision of services to the Issuer by NAB. In particular, the Issuer is bound to provide the services to specified service standards or service levels, and must ensure that when performing the services it complies with applicable laws and that the services are provided by reasonably skilled and experienced individuals. NAB is obliged to pay fees for each service calculated in accordance with the terms of the agreement. The fees include service charges from the Issuer along with any third-party costs associated with the provision of the services.

6. **Conduct Indemnity Deed**

On 2 December 2015, NAB and the Issuer entered into the Conduct Indemnity Deed pursuant to which NAB agreed, subject to certain limitations, to provide the Issuer with indemnity protection in respect of certain historic conduct issues, which is described in further detail in "*Information on CYBG Group—Conduct*".

7. **Sale and Purchase Agreement**

On 27 November 2015, NAB and the Issuer entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") in connection with the Demerger, pursuant to which NAB has agreed to sell the entire issued and to be issued share capital of CYBI in consideration for the issue of new ordinary shares in the Issuer. For further information see "*Details of the Demerger and Company Capital Reduction—Details of the Demerger—Implementation of the Demerger*".

8. **Insurance Intermediary Business Sale and Purchase Agreement**

NAB and Clydesdale Bank entered into a sale and purchase agreement on 30 September 2015. Pursuant to the sale and purchase agreement, NAB agreed to sell its entire shareholding in CYBIHL for a consideration of £4.1 million. Completion was conditional on the FCA confirming that there was no objection to Clydesdale Bank, NEL or CYBI becoming a controller of CYBIL. The provisional consideration was adjusted post completion to take account of the cash standing to the credit of CYBIL at the date of the transfer, with the total consideration being £4,144,942.74.

NAB is liable under the sale and purchase agreement for any claim under the warranties for a period of 12 months from the date of signing. There is no liability in respect of any claim under the warranties unless the liability in respect of that claim, when aggregated with liability in respect of all other claims, exceeds AUD 250,000. Total liability is limited to the amount of the final consideration paid.

9. **Legacy CRE portfolio agreements**

In 2012, CYBG Group transferred substantially all of its CRE loan portfolio to NAB. The agreements entered into in connection with that transfer remain in place, including in respect of the ongoing provision of services in connection with the transfer.

Business sale agreement

This agreement provided for the transfer of the CRE loan portfolio, and included certain warranties and indemnities from CYBG Group in favour of NAB, which remain in force. Any liability under these warranties and indemnities in respect of conduct related issues arising in the CRE portfolio prior to its sale by CYBG Group in 2012 falls within the scope of the Conduct Indemnity Deed to the same extent that liability for a non-CRE related conduct issue would do so. Discussions are ongoing between NAB and CYBG Group about whether CYBG Group may repurchase specific CRE loans (up to approximately £250 million) within the legacy CRE portfolio previously disposed of to NAB where it may be appropriate for the customer relationship or to enable any disputes to be retained and managed directly by CYBG Group. Should any such repurchases proceed then NAB and CYBG Group currently intend that the relevant transfer agreements will be entered into and completed over the 12 months following the Demerger.

The original transfer under the business sale agreement took place by way of a transfer of the beneficial ownership of the relevant loans and related assets. CYBG Group remains the lender of record for the residual portfolio owned by NAB, and the original transfer agreement contains an indemnity from NAB to CYBG Group in respect of liabilities incurred following completion of the transfer.

Services agreement

CYBG Group has provided certain services to NAB, and NAB has provided certain services to CYBG Group, since the transfer of the CRE loan portfolio to NAB in October 2012 pursuant to a CRE services agreement. Those services will continue to be provided for the life of the CRE loan portfolio under this services agreement.

The services provided by CYBG Group to NAB include risk reporting, regulatory reporting on credit RWAs, the calculation of loan loss provisioning, inputs into the calculation of operational risk capital and economic capital, access to a number of NAB's operational risk systems, payroll management and processing, access to various systems and third party solutions including customer information, know your client and anti-money laundering reporting, financial management information, operational services and support for portfolio sales to third party purchasers. In addition, NAB provides certain services to CYBG Group, primarily management of its residual exposures to borrowers included in the CRE portfolio transfer.

The terms of the services agreement are broadly similar to the terms of the Transitional Services Agreement. The service provider is required to meet specified service standards or service levels, and must ensure that in performing the services it complies with applicable laws. There is an annual fee payable, which is subject to an annual review process which also addresses overall performance and management of the services.

The liability of each party for service failure (but not certain categories of claims relating to breach of law or specific indemnities) is subject to agreed caps, which are currently £11 million for NAB and £112.5 million for CYBG Group. In addition, each party has the right to appoint substitute providers for some or all of the services in certain specific circumstances where failure would be critical to the recipient's business.

The recipient of any particular service is entitled to terminate that service by notice to the service provider, and there is a customary change process procedure whereby changes to the services or service levels are required to be discussed in good faith and agreed.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been duly authorised by a resolution of the Board dated 22 October 2015 and a resolution of a committee of directors of the Issuer dated 10 December 2015.

Listing and Trading

2. Applications have been made for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange. The total expenses related to the admission to trading are expected to be €6,540.

Legal and Arbitration Proceedings

3. Save as disclosed below, there are no other governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of these Listing Particulars, a significant effect on the financial position, operations or profitability of CYBG Group.

Proceedings in connection with conduct-related PPI redress

For information on proceedings and provisions in connection with conduct-related PPI redress see "*Part 5—Operating and Financial Review—Significant Factors Affecting Results of Operations and Financial Position—Legacy conduct-related redress—PPI Redress*" of the Equity Prospectus.

Proceedings in connection with conduct-related IRHP redress

For information on proceedings and provisions in connection with conduct-related IRHP redress see "*Part 5—Operating and Financial Review—Significant Factors Affecting Results of Operations and Financial Position—Legacy conduct-related redress—Interest Rate Hedging Products and Other Conduct*" of the Equity Prospectus.

Significant Change

4. Save as disclosed on page 191 in "*Part 5—Operating and Financial Review—Recent Developments*" of the Equity Prospectus, which is incorporated by reference in these Listing Particulars, since 30 September 2015 there has been no significant change in the financial or trading position of the Issuer or CYBG Group.

Material Change

5. Since 30 September 2015 there has been no material adverse change in the prospects of the Issuer or the CYBG Group.

Auditors

6. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.
7. The Historical Financial Information incorporated by reference herein does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. Full individual accounts of CYBI and each of its subsidiary undertakings for each financial year to which the financial information relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies. The Historical Financial Information of CYBG Group as of and for the years ended 30 September 2012, 2013, 2014 and 2015 has been reported on in accordance with Statements of Investment Reporting Standards issued by the Auditing Practices Board in the United Kingdom by Ernst & Young LLP, 1 More London Place, London SE1 2AF, chartered accountants.

8. Ernst & Young LLP has given and not withdrawn its consent to the inclusion in these Listing Particulars of its report set out in "*Accountant's Report on Historical Financial Information*" in respect of the Historical Financial Information and the references to its report and its name in the form and context in which they are included and has authorised the contents of its report for the purposes of paragraphs 2A.13.1 and 2C.7.3 of the Global Exchange Market Listing and Admission to Trading Rules.

Irish Listing Agent

9. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the official list of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

Documents on Display

10. Physical copies of the following documents may be inspected during normal business hours at the registered office of the Issuer at 20 Merrion Way, Leeds, LS2 8NZ, United Kingdom for so long as the Notes remain outstanding:
- (a) the Articles of Association of the Issuer;
 - (b) the audited consolidated financial statements of CYBG Group for the four years ended 30 September 2015 and the unaudited Pro Forma Financial Information as at 30 September 2015;
 - (c) the Trust Deed and the Agency Agreement; and
 - (d) these Listing Particulars.

Third Party Information

11. Where information in these Listing Particulars has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where it is used.

Clearing

12. The Notes have been accepted for clearance through the Clearing Systems. The ISIN is XS1346644799 and the common code is 134664479.
13. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg

**REGISTERED
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