

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR ITS TERRITORIES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the following Information Memorandum (in preliminary or final form), and you are therefore required to read this carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

THE INFORMATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS INFORMATION MEMORANDUM MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE INFORMATION MEMORANDUM HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. SUCH SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE.

Confirmation of your Representation: In order to be eligible to view the Information Memorandum or make an investment decision with respect to the Securities described therein (the “**Securities**”), you must not be in the United States or be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the email and accessing the Information Memorandum, you shall be deemed to have represented to Virgin Money Holdings (UK) plc as issuer (the “**Issuer**”) and Morgan Stanley & Co. International plc, Deutsche Bank AG, London Branch and Goldman Sachs International as joint bookrunners (together, the “**Joint Bookrunners**”) that:

- (1) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Securities, you will be doing so pursuant to Regulation S under the Securities Act;
- (2) the electronic mail address to which the attached Information Memorandum has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands; and
- (3) you consent to delivery of the attached Information Memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Bookrunners and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer.

You are reminded that the Information Memorandum has been delivered to you on the basis that you are a person into whose possession the Information Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Information Memorandum to any other person. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and a Joint Bookrunner or any affiliate of such Joint Bookrunner is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by such Joint Bookrunner or such affiliate, as the case may be, on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Information Memorandum constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Issuer or any Joint Bookrunner that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Information Memorandum (in preliminary or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required.

Recipients of the Information Memorandum who intend to subscribe for or purchase any Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Information Memorandum in final form.

The Information Memorandum is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons within the United Kingdom who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as “**relevant persons**”). The Information Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Information Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. The Information Memorandum (in preliminary or final form) may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 would not, if the Issuer was not an authorised person, apply to the Issuer.

The securities referred to in the Information Memorandum are not intended to be sold and should not be sold to retail clients in the European Economic Area, 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 page 5 of the Information Memorandum for further information.

Virgin Money Holdings (UK) plc
(incorporated under the laws of England and Wales)

£230,000,000 Fixed Rate Resetable Additional Tier 1 Securities

Issue price: 100 per cent.

The £230,000,000 Fixed Rate Resetable Additional Tier 1 Securities (the “**Securities**”) will be issued by Virgin Money Holdings (UK) plc (the “**Issuer**”) on or about 10 November 2016 (the “**Issue Date**”). The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 10 November 2021 (the “**First Reset Date**”), at a rate of 8.750 per cent. per annum and thereafter at the relevant Reset Interest Rate as provided in Condition 5. Interest will be payable on the Securities semi-annually in arrear on each Interest Payment Date, commencing on 10 May 2017, provided that the Issuer may elect to cancel any interest payment (in whole or in part) at its full discretion, and must cancel payments of interest (i) in the circumstances described in Condition 5.1, 5.9 or 8.1(a) and/or (ii) if and to the extent that such payment could not be made in compliance with the Solvency Condition as defined in Condition 3.2. Any interest which is so cancelled will not accumulate or be payable at any time thereafter, no amount will become due from the Issuer in respect thereof and cancellation thereof shall not constitute a default for any purpose on the part of the Issuer.

Upon the occurrence of a Trigger Event, each Security will be automatically and irrevocably discharged and satisfied by its Conversion on the Conversion Date into Ordinary Shares of the Issuer at the Conversion Price and such Ordinary Shares will be delivered to the Settlement Shares Depository, subject to and as more fully described in Condition 8. The Securities are perpetual securities with no fixed redemption date, and the Securityholders have no right to require the Issuer to redeem or purchase the Securities at any time. The Issuer may, in its discretion but subject to obtaining Regulatory Approval, compliance with the Regulatory Preconditions and compliance with the Solvency Condition, elect to (a) redeem all (but not some only) of the Securities at their principal amount, together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to (but excluding) the redemption date, (i) on the First Reset Date or on any Interest Payment Date thereafter or (ii) at any time following the occurrence of a Tax Event (as defined in Condition 7.4) or a Capital Disqualification Event (as defined in Condition 7.3), or (b) repurchase the Securities at any time in accordance with the then prevailing Regulatory Capital Requirements.

Potential investors should read the whole of this document, in particular the section headed “Risk Factors”.

Application has been made to the Luxembourg Stock Exchange in its capacity as market operator of Euro MTF under the Luxembourg act relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005, as amended, to admit the Securities to trading on the Euro MTF market and to list the Securities on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's Euro MTF market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The Securities are not intended to be sold and should not be sold to retail clients in the European Economic Area, 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” in this Information Memorandum for further information.

The Securities will be issued in registered form and available and transferable in minimum amounts of £200,000 and integral multiples of £1,000 in excess thereof. The Securities will initially be represented by a global certificate in registered form (the “**Global Certificate**”) and will be registered in the name of a nominee of a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**” and, together with Euroclear, the “**Clearing Systems**”).

Sole Structuring Advisor and Joint Bookrunner

Morgan Stanley

Joint Bookrunners

Deutsche Bank

Goldman Sachs International

This Information Memorandum constitutes a Prospectus for the purpose of Luxembourg law dated July 10, 2005 on Prospectus for Securities, as amended. This Information Memorandum may be used only for the purposes for which it has been published.

The Issuer accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information in this Information Memorandum has been extracted or derived from independent sources. Where this is the case, the source has been identified. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Information Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see *“Information Incorporated by Reference”*). This Information Memorandum should be read and construed on the basis that such documents are incorporated in and form part of the Information Memorandum.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other information supplied in connection with the offering of the Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

None of Morgan Stanley & Co International plc, Deutsche Bank AG, London Branch and Goldman Sachs International (the **“Joint Bookrunners”**) nor any of their respective affiliates have authorised the whole or any part of this Information Memorandum and none of them makes any representation or warranty or accepts any responsibility as to the accuracy and completeness of the information contained in this Information Memorandum.

Neither this Information Memorandum nor any other information supplied in connection with the offering of the Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer that any recipient of this Information Memorandum or any other information supplied in connection with the offering of the Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Information Memorandum nor any other information supplied in connection with the offering of the Securities constitutes an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any Securities in any jurisdiction where such offer or invitation is not permitted by law.

Neither the delivery of this Information Memorandum nor the offering, placing, sale or delivery of the Securities shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Securities is correct as of any time subsequent to the date indicated in the document containing the same.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the **“Securities Act”**). Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States or to U.S. persons.

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (a) has sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Information Memorandum or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the potential investor’s currency; (d) understands thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and (e) is 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 Securities are complex financial instruments. Such instruments may be considered by investors who are in a position to be able to satisfy themselves that the Securities would constitute an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Securities will perform under changing

conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Information Memorandum and the offer or sale of Securities may be restricted by law in certain jurisdictions. The Issuer does not represent that this Information Memorandum may be lawfully distributed, or that the Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and it does not assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which is intended to permit a public offering of the Securities or the distribution of this Information Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Information Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Information Memorandum or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Information Memorandum and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Information Memorandum and the offer or sale of Securities in the United States and the United Kingdom.

IN CONNECTION WITH THE ISSUE OF THE SECURITIES, MORGAN STANLEY & CO. INTERNATIONAL PLC AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Information Memorandum and any documents incorporated by reference, including any information as to Virgin Money's strategy, market position, plans or future financial or operating performance, constitutes "forward looking statements". All statements, other than statements of historical fact, are forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "seeks", "predicts", "schedule" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plan, objectives, goals, future events or intentions.

Forward looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Virgin Money, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking statements. Such factors include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; changes to Virgin Money or the Bank's (as defined below) credit ratings; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside Virgin Money's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside Virgin Money's control; the policies and actions of governmental or regulatory authorities in the UK, the European Union, the US or elsewhere; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss

reserves; the actions of competitors, including non bank financial services and lending companies; and the success of Virgin Money in managing the risks of the foregoing.

Investors are cautioned that forward looking statements are not guarantees of future performance. Forward looking statements may, and often do, differ materially from actual results. Any forward looking statements in this Information Memorandum speak only as of the date they are made, reflect the views of the board of Virgin Money as of the date they are made with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Virgin Money's operations, results of operations, strategy, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Information Memorandum that could cause actual results to differ before making an investment decision. All of the forward looking statements made in this Information Memorandum are qualified by these cautionary statements.

In this Information Memorandum, references to “**Virgin Money**” and to “**Group**” are to Virgin Money Holdings (UK) plc and its subsidiaries, taken as a whole. The term “**Issuer Group**” has the meaning given to it in Condition 20 of the Terms and Conditions of the Securities.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

CURRENCIES AND OTHER DEFINED TERMS

Unless otherwise indicated, in this Information Memorandum, all references to:

- “**U.S. dollars**” are to the lawful currency of the United States;
- “**euro**” or “**€**” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended; and
- “**pounds sterling**” or “**£**” are to the lawful currency of the United Kingdom.

Unless otherwise indicated, the financial information contained in this Information Memorandum has been expressed in pounds sterling. Virgin Money’s functional currency is pounds sterling and Virgin Money prepares its financial statements in pounds sterling.

Any reference in this Information Memorandum to “**2015**” or any other year is, unless otherwise indicated, a reference to the 12 months ended on 31 December of the stated year.

MARKET, ECONOMIC AND INDUSTRY DATA

This Information Memorandum contains information regarding Virgin Money’s business and the industry in which it operates and competes, some of which Virgin Money has obtained from third-party sources. Virgin Money and other institutions operating in the financial services industry make available a wide range of financial and operational information to regulatory and market bodies, including the Bank of England and the Council of Mortgage Lenders. These bodies use the data supplied to publish market share statistics relating to retail mortgage lending and savings, among other matters. However, no assurance can be made that the information reported to these bodies by different market participants is, in all cases, directly comparable.

In some cases, independently determined industry data is not available. In these cases, any Virgin Money market share included in this Information Memorandum is referred to as having been estimated. All such estimates have been made by Virgin Money using its own information and other market information which is publicly available. All such estimations have been made in good faith based on the information available and Virgin Money’s knowledge of the market within which it operates.

Where third-party information has been used in this Information Memorandum, the source of such information has been identified. With respect to such third-party information, this information has been accurately reproduced and, so far as the Issuer is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or obtainable. In the case of the presented economic and statistical information, similar information may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

Where information has not been independently sourced, it is Virgin Money’s own information.

ROUNDING

Certain data in this Information Memorandum has been rounded. As a result of such rounding, the totals of data presented in tables in this Information Memorandum may vary slightly from the arithmetic totals of such data.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Securities 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 Securities to retail investors.

In particular, in June 2015, the UK Financial Conduct Authority 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 securities having features substantially similar to the Securities, must not be sold to retail clients in the European Economic Area (the “EEA”); 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.

By purchasing, or making or accepting an offer to purchase, any Securities (or a beneficial interest therein) from the Issuer and/or any Joint Bookrunner, each prospective investor represents, warrants, agrees with, and undertakes to, the Issuer and the Joint Bookrunners 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 Securities (or any beneficial interest therein) to retail clients in the EEA; or
 - (B) communicate (including the distribution of this Information Memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Securities (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 Securities (or any beneficial interest therein) to a retail client in or resident in the United Kingdom (the “**UK**”), in circumstances that do not and will not give rise to a contravention of the applicable PI Rules by any person and/or (ii) in relation to any sale or offer to sell Securities (or any beneficial interest therein) to a retail client in any EEA member state other than the UK, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities (or such beneficial interest therein) and is able to bear the potential losses involved in an investment in the Securities and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (“**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 Securities (and any beneficial interest therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities (or any beneficial interest 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 Securities (or any beneficial interest therein) from the Issuer and/or any Joint Bookrunners, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

CONTENTS

	Page
Overview of the Principal Features of the Securities	8
Information Incorporated by Reference	13
Risk Factors	14
Terms and Conditions of the Securities	50
Summary of provisions relating to the Securities while represented by the Global Certificate	80
Use of Proceeds	83
Description of Virgin Money's business	84
Description of the Shares	91
Taxation	92
Subscription and Sale	94
General Information.....	95
Definitions	97

OVERVIEW OF THE PRINCIPAL FEATURES OF THE SECURITIES

The following overview refers to certain provisions of the conditions of the Securities and is qualified by the more detailed information contained elsewhere in this Information Memorandum. Capitalised terms which are defined in “Conditions of the Securities” have the same meaning when used in this overview. References to numbered Conditions are to the conditions of the Securities (the “**Conditions**”) as set out under “Conditions of the Securities”.

Issuer	Virgin Money Holdings (UK) plc
Trustee	Citicorp Trustee Company Limited
Registrar	Citibank, N.A., London Branch
Securities	£230,000,000 of Fixed Rate Resettable Additional Tier 1 Securities
Risk factors	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under the Securities and the Trust Deed. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Securities and certain risks relating to the structure of the Securities. These are set out under “ <i>Risk Factors</i> ”.
Status of the Securities	The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> , without any preference, among themselves.
Rights on a Winding-Up	The rights and claims of Securityholders in the event of a Winding-Up of the Issuer are described in Conditions 4 and 11, and will depend on whether the Winding-Up occurs prior to, or on or after, the occurrence of a Trigger Event.
Solvency Condition	Except in the event of a Winding-Up, payments in respect of or arising from (including any damages awarded for breach of any obligations under) the Securities are conditional upon the Issuer being solvent (within the meaning given in Condition 3.2) at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the “ Solvency Condition ”).
Interest	<p>The Securities will bear interest on their principal amount:</p> <p>(a) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 8.750 per cent per annum; and</p> <p>(b) thereafter, at the relevant Reset Interest Rate (as described in Condition 5.4),</p> <p>in each case payable, subject to cancellation as described below, semi-annually in arrear on 10 May and 10 November in each year (each, an “Interest Payment Date”), commencing 10 May 2017.</p>
Optional cancellation of interest	The Issuer may elect at its full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any Interest Payment Date. See Condition 5.1 for further information.
Mandatory cancellation of interest	Further, the Issuer will cancel any interest otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the Interest Amount, 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 paid or made on Tier 2 Capital items or which have already been provided for, by way of deduction, in the calculation of Distributable Items), exceeds the amount of Distributable Items of the Issuer as at

such Interest Payment Date.

See Condition 5.1 for further information.

In addition, the Issuer will also be required to cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date if and to the extent that payment of such Interest Amount would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of Directive 2013/36/EU (the “**CRD IV Directive**”) (or any provision of applicable law transposing or implementing Article 141(2) of the CRD IV Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Issuer Group to be exceeded. “**Maximum Distributable Amount**” means any applicable maximum distributable amount relating to the Issuer Group required to be calculated in accordance with Article 141 of the CRD IV Directive (or, as the case may be, any provision of applicable law transposing or implementing the CRD IV Directive, as amended or replaced).

Payments of interest are also subject to the Solvency Condition (see “*Solvency Condition*” above). Following the occurrence of a Trigger Event, the Issuer will also cancel all interest accrued up to (and including) the Conversion Date (see “*Conversion following a Trigger Event*” below).

Non-cumulative interest

If the payment of interest scheduled on an Interest Payment Date is cancelled in accordance with the Conditions as described above, the Issuer shall not have any obligation to make such interest payment on such Interest Payment Date and the failure to pay such amount of interest or part thereof shall not constitute a default of the Issuer for any purpose. Any such interest will not accumulate or be payable at any time thereafter and holders of the Securities shall have no right thereto whether in a Winding-Up or otherwise.

Conversion following a Trigger Event

If the Common Equity Tier 1 Capital Ratio of the Issuer Group falls below 7.00 per cent (a “**Trigger Event**”) at any time, the Issuer shall immediately notify the Supervisory Authority of the occurrence of the Trigger Event and, without delay and by no later than one month (or such shorter period as the Supervisory Authority may then require) from the occurrence of the relevant Trigger Event:

- (a) the Issuer shall cancel any interest which is accrued and unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment);
- (b) the Securities shall irrevocably (without the need for the consent of Securityholders) be discharged and satisfied by their Conversion (as defined below); and
- (c) the Issuer shall issue and deliver to the Settlement Shares Depository on the Conversion Date a number of ordinary shares in the Issuer (“**Ordinary Shares**”) in respect of each Security determined by dividing the principal amount of such Security by the Conversion Price prevailing on the Conversion Date, rounded down (if necessary) to the nearest whole number of Ordinary Shares (such write down and issue of ordinary shares being together referred to as a “**Conversion**” and “**Converted**”) shall have a corresponding meaning).

See Condition 8 for further information.

The “**Issuer 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.

The “**Conversion Price**” shall be £2.96 (subject to adjustment in the circumstances provided in Condition 8).

Conversion Shares Offer

Not later than the tenth London business day following the Conversion Date, the

Issuer may, in its sole and absolute discretion, elect by giving notice to the Securityholders that the Settlement Shares Depository (or an agent on its behalf) will make an offer, in the Issuer's sole and absolute discretion, of all or some of the Ordinary Shares that were delivered on Conversion to, in the Issuer's sole and absolute discretion, all or some of the Issuer's Shareholders at such time, such offer to be at a cash price per Ordinary Share being no less than the Conversion Price.

See Condition 8 for further information.

Maturity

The Securities are perpetual securities with no fixed redemption date. The Securities may only be redeemed or repurchased by the Issuer in the circumstances below (as more fully described in Condition 7).

Optional redemption

The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption*" below, redeem all (but not some only) of the Securities on the First Reset Date or on any Interest Payment Date thereafter at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date to but excluding the relevant redemption date.

Redemption following a Capital Disqualification Event or a Tax Event

The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption*" below, redeem all (but not some only) of the Securities at any time following the occurrence of a Capital Disqualification Event (as defined in Condition 7.3) or a Tax Event (as defined in Condition 7.4), in each case, at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the relevant redemption date.

Conditions to redemption

Any redemption of the Securities will be subject to obtaining Regulatory Approval and (to the extent required by prevailing Regulatory Capital Requirements) to:

- (a) the Issuer Group having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer Group; or
- (b) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; or
- (c) if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with an alternative pre-condition to either of those set out in paragraphs (a) and (b) above, or require compliance with an additional pre-condition, the Issuer having complied with such other pre-condition,

(the "**Regulatory Preconditions**").

In addition, if the Issuer has elected to redeem the Securities and either (i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption, or (ii) prior to redemption of the Securities, a Trigger Event occurs, then the relevant notice of redemption will be automatically rescinded and will be of no force and effect.

Purchase of the Securities

The Issuer or any of its Subsidiaries may, at its option but subject to Regulatory Approval, purchase or otherwise acquire any of the outstanding Securities at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements.

Withholding tax and Additional Amounts

All payments by or on behalf of the Issuer in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of,

any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction is required by law. In that event, the Issuer will (subject to certain specified exceptions) pay such additional amounts (“**Additional Amounts**”) in respect of the payment of interest on (but not, for the avoidance of doubt, in respect of the principal amount of) the Securities as may be necessary in order that the net amounts of interest received by the Securityholders after the withholding or deduction shall equal the amounts of interest which would have been receivable in respect of the Securities in the absence of such withholding or deduction.

Enforcement

In the event of a Winding-Up, or if the Issuer has not made payment of any amount in respect of the Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up. The Trustee may prove in any a Winding-Up (whether or not instituted by the Trustee) and shall have such claim as is set out in Condition 4.

The Trustee may, at its discretion and without notice, institute such other proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer (including, without limitation, proceedings, actions or steps to enforce obligations of the Issuer in connection with a Conversion) under the Trust Deed (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Securities, including any damages awarded for breach of any obligations but excluding any amount due to the Trustee, other than amounts due to the Trustee on behalf of Securityholders, in accordance with the Trust Deed) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Conditions or the Trust Deed. No Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a Winding-Up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in Condition 11. See Condition 11 for further information.

Modification

The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, pursuant to which defined majorities of the Securityholders may, subject to the Issuer obtaining Regulatory Approval, consent to the modification or abrogation of any of the Conditions or any of the provisions of the Trust Deed, and any such modification or abrogation shall be binding on all Securityholders

In addition, the Trustee may, subject to the Issuer obtaining Regulatory Approval in the case of the Conditions and the Trust Deed, agree (other than in respect of a Reserved Matter, as defined in the Trust Deed), without the consent of the Securityholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the 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 Securityholders) or may, subject to the Issuer obtaining Regulatory Approval, 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 to correct a manifest error.

If the Trustee is requested to consider any modification or waiver of the Conditions or Trust Deed or to convene a meeting of Securityholders in respect thereof, the Issuer shall provide to the Trustee a certificate signed by two Authorised Signatories certifying that it has obtained Regulatory Approval or that

Regulatory Approval is not required, and the Trustee shall rely, and act upon, such certificate absolutely without any liability for so doing.

Substitution of the Issuer

The Trustee may, without the consent of the Securityholders but subject to Regulatory Approval, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute of the Issuer) as the principal debtor under the Securities and the Trust Deed of any of the Issuer's wholly-owned Subsidiaries, subject to:

- (a) the Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Securityholders; and
- (b) certain other conditions set out in the Trust Deed being complied with.

Form

The Securities will be issued in registered form. The Securities will initially be represented by a Global Certificate and will be registered in the name of a nominee of a common depository for the **Clearing Systems**.

Denomination

£200,000 and integral multiples of £1,000 in excess thereof.

Clearing systems

Euroclear and Clearstream, Luxembourg.

Listing

Application has been made to the Luxembourg Stock Exchange for the Securities to be admitted to trading on the Luxembourg Stock Exchange's Euro MTF market and to be listed on the Official List of the Luxembourg Stock Exchange with effect from the Issue Date.

Selling restrictions

United States and United Kingdom.

Governing law

The Securities and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Securities or the Trust Deed, will be governed by, and construed in accordance with, English law.

ISIN:

XS1516312409

Common Code:

151631240

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

(a) the following parts of the 2015 Annual Report and Accounts of the Virgin Money Group:

2015 Highlights	2-7
Financial Results	54-72
Risk Management Report	139-208
Independent Auditor's Report	211-213
Consolidated Financial Statements	214-220
Notes to the Consolidated Financial Statements.....	221-272
Parent Company Financial Statements	273-275
Notes to the Parent Company Financial Statements	276-282

(b) the following parts of the 2014 Annual Report and Accounts of the Virgin Money Group:

2014 Highlights	2-7
Financial Results	54-66
Risk Management Report	146-212
Independent Auditor's Report	216-219
Consolidated Financial Statements	220-226
Notes to the Consolidated Financial Statements.....	227-292
Parent Company Financial Statements	293-295
Notes to the Parent Company Financial Statements	296-301

(c) the following parts of the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2016:

Financial Review	9-13
Divisional Highlights.....	14-19
Risk Management Report	20-36
Condensed Consolidated Half-Year Financial Statements	37-64
Independent Auditor's Review Report	65-66

(d) the following parts of the Q3 2016 Trading Update of the Issuer:

Business Review.....	2
More on our story	3-5

Copies of the documents specified above as containing information incorporated by reference in this Information Memorandum (i) may be inspected, free of charge during normal business hours on weekdays at the registered office of the Issuer at Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL, United Kingdom and at the specified office of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

Copies of the documents specified above may also be accessed at www.bourse.lu.

Any information contained in any of the documents specified above which is not incorporated by reference in this Information Memorandum is either not relevant to investors or is covered elsewhere in this Information Memorandum.

Virgin Money's website is www.virginmoney.com. The information on this website or any website directly or indirectly linked to this website has not been verified and is not incorporated by reference into this Information Memorandum and investors should not rely on it.

RISK FACTORS

Any investment in the Securities is subject to a number of risks, most of which are contingencies which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Prior to investing in the Securities, prospective investors should carefully consider the risk factors associated with any investment in the Securities, the Group and the financial services industry in the United Kingdom (the "UK") in general, together with all the other information contained in this document. This section describes the risk factors which are considered by the Issuer to be material to the Group and an investment in the Securities. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. There may be other risks and uncertainties which are currently not known to the Issuer or which it currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties, occur this could have a material adverse effect on the Group's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the Securities to decline and, as a result, an investor in the Securities could lose some or all of its investment.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Securities are also described below. Any of these factors, individually or in the aggregate, could have an adverse effect on the Group's business, results of operations and financial position. In addition, many of these factors are correlated and may require changes to the Group's capital requirements, and events described therein could therefore have a compounding adverse effect on the Group.

Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decision.

RISKS RELATED TO VIRGIN MONEY'S BUSINESS

Virgin Money's business and financial performance have been and will continue to be affected by general economic conditions in the UK and elsewhere, and any adverse developments in the UK or global financial markets could cause its earnings and profitability to decline.

As Virgin Money's customer revenue is derived almost entirely from customers based in the UK, Virgin Money is directly and indirectly subject to the inherent risks arising from general economic conditions in the UK, other economies which impact the UK economy and the state of the global financial markets both generally and as they specifically affect financial institutions.

Following the UK's vote to leave the European Union, the outlook for the UK economy is more uncertain. If the UK's economic conditions weaken, resulting in a fall in demand for Virgin Money's products, or if there is a fall in the level of customers' disposable income, or if financial markets exhibit uncertainty and/or volatility, this could have a material adverse impact on Virgin Money's business, financial condition, results of operations and/or prospects.

'Brexit' has increased the risk of low growth in the UK economy. Although the impact on consumer confidence to date has been less marked than expected, some businesses have reduced their investment plans. If the UK experiences protracted trade negotiations with the EU which lead to poor outcomes, this could impact UK exports and consumer confidence which in turn may lead to a rise in unemployment and a fall in house prices.

In addition, a deterioration in economic conditions in the Eurozone, including a return to macroeconomic or financial market instability may pose a risk to Virgin Money's business, despite the fact that Virgin Money has limited direct financial exposure to the Eurozone. Should the economic conditions in the Eurozone deteriorate, the macroeconomic risks faced by Virgin Money would be exacerbated given the influence the Eurozone has on the UK's economic performance, and may have an adverse impact on consumer confidence, spending and demand for credit in the UK, any of which could have material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects. Market volatility has a material adverse impact on the ability of financial institutions to access the wholesale funding markets which, if such access became difficult, may have a material adverse impact on Virgin Money.

As the global economy continues to recover, central banks in advanced economies have maintained supportive policies, including historically low or negative levels of global interest rates. The Bank of England has reacted to the threat of Brexit and reduced its base rate in August 2016 to a historic low of 0.25 per cent., having previously been at 0.5 per cent. since March 2009 and as high as 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 Virgin Money. In addition, the UK Government has provided support to UK financial institutions to support lending in the UK economy. These policies have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair for most major financial institutions.

Decreased levels of support for UK lending by the Bank of England and the UK Government could have a material adverse effect on Virgin Money's business.

Should the economy fail to recover or deflation emerge, the Bank of England may increase its level of support for the economy further by maintaining the historically low base rate for longer than anticipated or lowering the base rate further, possibly setting a negative base rate similar to several European central banks. Such a scenario may have a material adverse effect on Virgin Money's margins as the interest rate it might earn on its customer assets may be less than the rate it pays for customer deposits and on other funding sources.

Virgin Money's earnings are exposed to the mortgages and savings market and Virgin Money is exposed to risks relating to the housing market

As at 30 June 2016, 66 per cent. of Virgin Money's total income was derived from its mortgage and savings business. The UK mortgage market was severely affected by the global financial crisis, with gross residential mortgage lending in the UK falling from £363 billion in 2007 to a low of £135 billion in 2010 before recovering slightly to £220 billion in 2015, according to data from the Bank of England. UK Government intervention in the housing market includes both direct intervention through its Help to Buy programme and indirect intervention through provision of liquidity to the banking sector under the Bank of England's Funding for Lending Scheme (the "FLS") and Term Funding Scheme ("TFS"). Although the mortgage market has benefited from stimulus provided by the UK Government's Help to Buy scheme, the scheme is due to be withdrawn in December 2016 which could have a material adverse effect on mortgage demand across the industry.

In addition, the UK's implementation of the European Mortgage Credit Directive 2014/17/EU (the "MCD") from 21 March 2016 as well as the Financial Conduct Authority ("FCA") rules which came into force in April 2014 following the Mortgage Market Review ("MMR") (both of which have had a limited direct effect on Virgin Money) taken alongside other regulatory changes (such as the Financial Policy Committee cap on high income multiples) may temper overall demand in the mortgage market.

Average house prices in the UK have generally been on the upward trend since February 2009, but the annual rate of house price growth has generally started to slow since the end of 2014. If UK house prices were, in the future, to begin to follow a falling trend or if house prices in those regions to which Virgin Money has significant exposure begin to follow a falling trend, in particular the South East of England and London, this would be likely to result in an increase in Virgin Money's residential mortgage loan impairment charges as the value of the security underlying its mortgage loans is eroded. Higher impairment charges could reduce Virgin Money's profitability, capital and its ability to engage in lending and other income generating activities and, therefore, could have a material adverse effect on Virgin Money's business and potentially on its ability to implement its strategy. A significant increase in house prices over a short period of time could also have a negative effect on Virgin Money by reducing the number of customers that could afford to purchase a house and therefore causing a reduction in demand for new mortgages.

In addition, Virgin Money is exposed to the UK savings market as its principal source of funding for its mortgage lending. As a result, there is a risk that a temporary or permanent fall in the UK savings ratio (being the amount UK households save as a proportion of disposable income) may have a material adverse effect on the ability of Virgin Money to fund its mortgage lending activity and affect Virgin Money's ability to deliver its strategic income targets and its financial performance.

There are risks that competition for customers among financial institutions may increase the cost to Virgin Money of acquiring the new customers it needs, through, for example, higher interest rates on its retail savings products. Savings products with higher rates without any corresponding lending rate increases could have the effect of reducing Virgin Money's margins and therefore affecting Virgin Money's ability to deliver its strategic income targets and its financial performance.

Negative fair value adjustments could have a material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects

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

Virgin Money has a portfolio of listed available for sale investment securities and there can be no assurance that fair valuations of Virgin Money's investment securities in future periods will not result in other comprehensive losses or

impairments which could be material. In addition, the value that Virgin Money ultimately realises for its investment securities may be lower than their current fair value, resulting in losses being recorded in its income statement, which losses could be material. Any of these factors could have a material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects.

Volatility in the wholesale funding markets may have an adverse effect on Virgin Money

During the global financial crisis, wholesale funding markets were severely restricted, which led to material liquidity challenges for banks heavily reliant on that source of funding. As a result, UK banks significantly increased their demand for retail deposits as a source of funding, leading to increased competition and higher customer interest rates. Whilst wholesale funding markets have recovered significantly in recent years, a continued focus on retail funding, as evidenced by the reduced loan to deposit ratios of the major UK retail banks, means that competition for retail deposits may continue to be elevated even in periods of benign wholesale funding markets. If Virgin Money is not able to attract sufficient retail deposits, its ability to meet its lending targets may be constrained which could have a material adverse effect on Virgin Money's financial and operational performance.

Virgin Money sources a proportion of its funding in the wholesale markets, primarily through securitisation programmes which it principally uses for medium term funding, although retained notes can also be used for short term repo funding purposes. Virgin Money also has access to the wholesale funding markets through its Global Medium Term Note programme which was established during 2015. While Virgin Money does not currently rely heavily on wholesale funding, it may need to access wholesale markets where there is a residual funding requirement over and above funds held from, among other sources, personal current accounts and other customer deposits. The availability of wholesale funding depends on a variety of factors including market conditions, the general availability of credit, Virgin Money's ability to raise funding through sources other than securitisation, the volume of trading activities, the overall availability of credit to the financial services industry, and rating agencies' and funding markets' assessment of Virgin Money's credit strength. These and other factors may limit Virgin Money's ability to raise funding in wholesale markets which could, in turn, result in a significant increase in its cost of funding or result in other material adverse effects on its business, financial condition, results of operations and/or prospects.

Rating downgrade and/or market sentiment with respect to Virgin Money, the sector, the UK and/or other sovereign issuers may have an adverse effect on Virgin Money

If sentiment towards the financial institutions operating in the UK (including Virgin Money) or in the Eurozone were to deteriorate, or if the UK's sovereign rating, Virgin Money plc's ratings and/or the ratings of the major financial institutions operating within the UK or beyond were to be adversely affected, this may have a materially adverse impact on Virgin Money and restrict its ability to source liquidity and funding in the longer term. In addition, any such change in sentiment or reduction in ratings could result in an increase in the costs of, and a reduction in the availability of, wholesale market funding across the financial sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including Virgin Money.

The Issuer's wholly owned subsidiary Virgin Money plc is publicly rated by Fitch and has a Long Term Issuer Default Rating of BBB+ and Short Term Issuer Default Rating of F2. The rating is on stable outlook. Any future declines in those aspects of Virgin Money's business identified by Fitch as significant or otherwise could adversely affect Fitch's perception of Virgin Money's credit and cause it to take negative ratings actions. Any downgrade in the Virgin Money plc's credit rating by Fitch could:

- adversely affect Virgin Money's liquidity and competitive position, particularly through cash outflows to meet collateral requirements on existing contracts;
- undermine confidence in Virgin Money;
- increase Virgin Money's borrowing costs; or
- limit Virgin Money's access to the capital markets or limit the range of counterparties willing to enter into transactions with Virgin Money, as many institutions require their counterparties to satisfy minimum ratings requirements.

Virgin Money plc's credit rating is subject to change and could be downgraded by Fitch as a result of many factors, including any failure by Virgin Money to implement its strategies successfully. A downgrade of Virgin Money plc's credit rating could also lead to a loss of customers and counterparties.

Competition in the United Kingdom personal financial services markets may adversely affect Virgin Money's operations

Virgin Money operates in an increasingly competitive UK personal financial services market. Virgin Money competes mainly with other providers of personal financial services, including banks, building societies and insurance companies, some of which have greater scale and financial resources, broader product offerings and more extensive distribution networks than Virgin Money.

Competition may intensify further in response to competitor behaviour, consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions (including the MCD and any action taken by the Competition and Markets Authority (the “CMA”) in connection with its market investigation reference in relation to both personal current accounts (“PCAs”) and aspects of small and medium-sized enterprise (“SME”) banking), outputs from various market studies by the FCA in the course of satisfying its competition objective including their cash savings and credit card market studies and the wider political environment, which is seeking to increase the level of competition in the UK retail banking market, together with other factors. If increased competition occurs as a result of these or other factors such as enhancements to payment account customers’ abilities to switch payment accounts as a result of the commencement of the Payment Account Regulations 2015 (2015/2038) (the “PARs”) on 18 September 2016, Virgin Money's business, financial condition, results of operations and/or prospects could be materially adversely affected.

Each of the main personal financial services markets in which Virgin Money operates is mature and slow growing, so that material growth requires taking market share from competitors. The mortgages, savings, credit cards and PCA markets in particular are very concentrated. Some of Virgin Money's competitors have publicly commented that they intend to grow their market share. Such banks may engage in enhanced marketing activities which may result in customers switching their products to such competitors or may limit Virgin Money's ability to attract new customers. This may place elevated focus on price, service and other competitive factors as the key differentiators, each of which carries a cost to the provider. If Virgin Money is unable to match the efficiency or the marketing impact of its competitors, it risks being disadvantaged and being unable to meet its strategic growth aspirations.

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

If Virgin Money's customer service levels were perceived by the market to be only in line with, or materially below, those of competitor UK financial institutions, Virgin Money could lose existing and potential new business. If Virgin Money is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new business or retain existing business, which could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

A feature of the market in which Virgin Money operates is competition among lenders on credit standards. Should Virgin Money's competitors lower their credit standards, Virgin Money may lose market share of the sub sectors in which it operates in order to protect its risk appetite, which may materially adversely affect Virgin Money's financial and operational performance.

Financial Risk (Liquidity, Market and Credit)

Liquidity

Financial institutions, such as Virgin Money, are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk that an institution may not have sufficient liquid funds at any time to make full payment in respect of liabilities falling due at that time. Virgin Money raises funds principally through accepting retail deposits and, to a lesser extent, in the wholesale funding market and Bank of England funding schemes. It also has a core portfolio of liquid investments as well as a range of other assets which are a further source of liquidity to it. However, if access to liquidity is constrained for a prolonged period of time, Virgin Money's cost of funding would increase as competition for retail deposits intensified, the cost of accessing the wholesale markets would rise and Virgin Money's ability to realise its liquid investments would be constrained. This would have a material adverse effect on Virgin Money's profitability.

These funding risks can be exacerbated by enterprise specific factors, such as over reliance on a particular source of funding or changes in credit ratings, or by market wide phenomena, such as market dislocation or a major disaster. There is also a risk that the funding structure employed by Virgin Money may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for Virgin Money to grow its business or even maintain it at current levels. Virgin Money's ability to access retail and wholesale funding sources on satisfactory economic terms is subject to

a variety of factors, including a number of factors which are outside its control. Virgin Money's access to retail deposit funding is dependent on the confidence of retail depositors in the economy in general and in the Virgin Money Group in particular, the financial services industry specifically and the availability and extent of deposit guarantees. In extreme circumstances, such as those experienced by some banks during the financial crisis, Virgin Money may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on the Virgin Money Group's solvency.

Market

Market risk is the risk that the value of, or net income arising from, Virgin Money's assets and liabilities changes as a result of changes to market forces, specifically interest rates, exchange rates or equity prices. Principally, the market risks that Virgin Money faces are interest rate risk, basis risk, foreign exchange risk, bond and equity index price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs.

The performance of financial markets may cause changes in the value of its investment portfolios. Although Virgin Money has implemented risk management methods to seek to mitigate and control these and other market risks to which it is exposed and its exposures are constantly measured and monitored, there can be no assurance that these risk management methods will be effective, particularly 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 Virgin Money's financial performance and business operations.

Credit

Credit risk is the risk that a borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument. Virgin Money's credit risk principally arises from its secured and unsecured loans and advances to customers, including its commitments to make such loans, from the investments in which its liquid assets are placed and from its hedging exposures. At 30 June 2016, retail secured credit accounted for 85 per cent. of Virgin Money's maximum exposure to credit risk before taking account of any collateral held or other credit enhancements and before provisions for impairment (this excludes off balance sheet loan commitments). For example, Virgin Money is exposed to the risk that the outstanding principal balance on interest-only or part capital repayment and part interest-only loans is not repaid in full at the contractual maturity date. Virgin Money 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 in terms of their estimated impact, this could lead to an increase in impairment charges on Virgin Money's residential mortgage portfolio and therefore could have a material adverse effect on its profitability. The risk that Virgin Money's rights of enforcement in respect of its regulated credit agreements may be restricted as a result of failures to comply with relevant regulations is described in detail below.

In addition, Virgin Money has large individual exposures to single name counterparties. The default of obligations by such counterparties could have a material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects.

Operational Risk

General

Virgin Money is exposed to many types of operational risk, including fraudulent and other criminal activities (both internal and external), the risk of breakdowns in processes, controls or procedures (or their inadequacy relative to the size and scope of Virgin Money's business) information security risks arising from information leakage, loss or theft and systems failure or non-availability. Virgin Money is also subject to the risk of disruption of its business arising from events that are wholly or partially beyond its control (for example natural disasters, acts of terrorism, epidemics and transport or utility failures) which may give rise to losses or reductions in service to customers and/or economic loss to Virgin Money. The operational risks that Virgin Money is exposed to could change rapidly and there is no guarantee that Virgin Money's processes, controls, procedures and systems are sufficient to address, or could adapt promptly to, such changing risks. All of these risks are also applicable where Virgin Money relies on outside suppliers or vendors to provide services to it and its customers (for example service disruption caused by the failure of a third party, corporate partner or strategic supplier).

Cyber-crime

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 recognised as being a material risk to the financial system. Virgin Money continues to invest in its IT infrastructure and its information security awareness, analysis and controls in response to emerging threats, and to ensure controls for known threats remain robust. It cannot, however, be certain that its

infrastructure and controls will prove effective in all circumstances. Any failure of the controls could result in significant financial losses and a material adverse effect on Virgin Money's operational performance and reputation.

Retain/recruit key talent

The successful management and operations of Virgin Money are reliant upon the contributions of the board members of the Issuer and Virgin Money plc, the senior management teams of the Issuer and Virgin Money plc and other key personnel who are key to Virgin Money's business. In addition, Virgin Money's performance is largely dependent on the talents and efforts of highly skilled individuals. Virgin Money's continued ability to compete effectively depends on its ability to attract new employees and to retain and motivate its existing employees. Although Virgin Money takes steps to protect itself in relation to the loss of key personnel (such as the inclusion of restrictive covenants and/or 'gardening leave' provisions in the employment contracts of key personnel), the loss of service of any of Virgin Money's senior management team or other key personnel, or an inability of Virgin Money to attract new personnel, could have a material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects.

Critical accounting estimates and judgements

Accounting policies and methods are fundamental to how Virgin Money records and reports its financial condition and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so that they comply with the International Financial Reporting Standards ("**IFRS**"). Virgin Money's financial statements carry an inherent reliance on Management's judgement. Virgin Money has identified certain accounting policies in the notes to the Virgin Money Group's financial statements in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. There is a risk that the judgements exercised by Virgin Money's Management team are erroneous and this could lead to inaccuracies in the reported financial position and performance of Virgin Money. As a result, Virgin Money cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

Notwithstanding the above, these risk factors should not be taken to imply that the Issuer or any other company in the Virgin Money Group, as applicable, is unable to comply with its obligations as a company with securities admitted to the Official List of the London Stock Exchange or as a supervised firm regulated under the Financial Services and Markets Act 2000.

Changes in Virgin Money's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations

From time to time, the International Accounting Standards Board (the "**IASB**") and/or the European Union change the IFRS that govern the preparation of Virgin Money's financial statements. These changes can be difficult to predict and could materially affect how Virgin Money records and reports its financial condition and results of operations. In some cases, Virgin Money could be required to apply a new or revised standard retrospectively, resulting in restating prior period financial statements.

For example, IFRS 9, Financial Instruments: Recognition and Measurement, is expected to impact all UK retail banks, including Virgin Money, by revising requirements for recognising and calculating impairment losses on lending portfolios and may have a material effect on Virgin Money's financial statements. However, the extent of change to the reported financial position or performance of Virgin Money will depend on the composition of Virgin Money's lending portfolios and forecast economic conditions at the date of implementation, which is expected to be 1 January 2018.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of Virgin Money's financial statements, which Virgin Money may adopt prior to the date on which such changes become mandatory if determined to be appropriate, or which Virgin Money may be required to adopt. Any such change in Virgin Money's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

Virgin Money is exposed to risks relating to relationships with key corporate partners and strategic suppliers

Virgin Money relies on a number of corporate partners and strategic suppliers which exposes it to the risk of deterioration of the commercial, financial or operational soundness of those organisations. In general, any failure by a key third party has the potential to cause:

1. pressure on revenue;
2. deterioration in customer service; and
3. a negative impact on the Virgin Money brand and investor confidence.

One of Virgin Money's key relationships is with its network of professional mortgage intermediaries, of which over 12,500 actively engaged in business with Virgin Money in 2015. The key risk associated with a major intermediary partner going out of business or switching allegiance to other lenders is the potential negative effect on Virgin Money's lending volume. In addition, Virgin Money may be exposed to many of the risks inherent in dealing with intermediaries. For example, Virgin Money will have limited oversight of the intermediaries' interactions with prospective customers and, consequently, Virgin Money faces certain risks related to the conduct of the mortgage intermediaries with which it does business. The intermediaries' incentives may not always align with Virgin Money's, which could lead to a deterioration in the quality and performance of Virgin Money's mortgage book. If mortgage intermediaries are found to have violated applicable conduct regulations or standards in the sale of Virgin Money's mortgage products, Virgin Money's brand and/or reputation could be harmed as a result. In addition, the structure of the intermediary market is also subject to change, for example, there may be a change in customer sentiment or regulation which favours customers dealing directly with financial institutions which would reduce the flow of business from intermediaries which may have an adverse impact on Virgin Money if this business cannot be substituted. Also, there may be consolidation in the intermediary market which may change the behaviour of the residual intermediaries in ways which may adversely impact Virgin Money. Any of these factors could have a negative impact on Virgin Money's ability to meet its strategic objectives for its asset base and, consequently, its business, financial condition, results of operations and/or prospects.

The credit card business is reliant on a number of Virgin Money's key relationships, including with Total System Services, Inc. ("TSYS") (which provides customer servicing capabilities). Virgin Money's ability to issue credit cards and service customers could be impaired in the event of:

1. the failure of third party systems or technology platforms, which could cause temporary service outage, adversely affect customers and negatively impact Virgin Money's reputation; and
2. any complete corporate failure of a third party, which could more significantly impact customers and Virgin Money's reputation and, potentially, give rise to claims by customers for financial loss experienced and/or regulatory sanctions.

A key corporate relationship for Virgin Money is with International Financial Data Services ("IFDS"), which supports Virgin Money's investment and pensions business. Virgin Money's ability to administer its investment and pension products and the funds under management held by Virgin Money Unit Trust Managers Limited ("VMUTM", a subsidiary of the Issuer) could be impaired if IFDS or other parties involved in fund management, fund accounting and pricing, custody or administration of Virgin Money's investment and pensions products were to fail in their obligations regarding safeguarding of client assets, suffer from serious financial difficulties, suffer a disaster at a key site or fail to ensure appropriate pricing. In general, a failure by IFDS has the potential to cause:

- deterioration of both new customer acquisition processes and existing customer services;
- inability for customers to transact at a time that suits them with the potential for financial loss if the market moves;
- a negative impact on Virgin Money's brand and reputation through decreased service levels;
- a detrimental impact on income from this business line generated by VMUTM; and
- failure to comply with regulations resulting in the risk of regulatory censure.

Virgin Money also partners with a range of companies for the provision of insurance products and services. Any material disruption has the potential to negatively impact:

- Virgin Money's brand and reputation through product/service unavailability and/or decreased service levels; and
- commission income generated by Virgin Money Personal Financial Service Limited (a subsidiary of the Issuer) from these products and services.

Virgin Money is reliant on its brand and therefore there are reputational risks which could cause harm to Virgin Money and its business prospects

Virgin Money's reputation is one of its most important assets and its ability to attract and retain customers and staff and conduct business with its counterparties could be materially adversely affected to the extent that its reputation or the reputation of its brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to Virgin Money and its business prospects. Reputational issues include, but are not limited to:

1. poor customer service or technology failures that impact upon customer services and accounts, see, for example, “*Operational Risk; Cyber-crime*” above;
2. failing to address potential conflicts of interest appropriately;
3. breaching or facing allegations of having breached legal and regulatory requirements in respect of the business it has originated or in respect of the business it has acquired, including Northern Rock plc. These requirements include, but are not limited to, conduct requirements, data protection, money laundering and anti-terrorism financing requirements;
4. acting or facing allegations of having acted unethically including having adopted inappropriate sales and trading practices;
5. failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping;
6. failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered by Virgin Money;
7. intermediaries and other third parties on whom Virgin Money relies, such as clearing banks, TSYS for credit cards and third party mortgage servicing agents, failing to provide the necessary services; and
8. generally poor business performance.

A failure to address these or any other relevant issue appropriately could make customers, depositors and investors less willing to do business with Virgin Money, which may materially adversely affect its business, financial condition, results of operations and/or prospects, and could damage its relationships with its regulators. As a result Virgin Money cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

Virgin Money is also exposed to reputational risk through its reliance on the Virgin brand. The Virgin brand is used in a wide range of different economic sectors in the UK and internationally. Adverse publicity in relation to others associated with the Virgin brand (including Sir Richard Branson) could result in an adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects.

Recent legislative and regulatory changes and future legislative and regulatory changes are imposing or could impose operational restrictions on Virgin Money, require Virgin Money to raise further capital, increase Virgin Money's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects

As a financial services firm, Virgin Money is subject to extensive and comprehensive regulations. The Issuer conducts its business subject to ongoing regulation by the FCA and the Prudential Regulation Authority (“PRA”). The regulatory regime requires Virgin Money to be in compliance with relevant regulations across many aspects of its activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If Virgin Money fails to comply with any relevant regulations, there is a risk of a material adverse effect on its business due to sanctions, fines or other action imposed by the regulatory authorities.

There is an increased focus by regulators on the appropriateness and sustainability of business models of regulated firms, with the regulators having the power to restrict a firm's ability to develop existing products, enter into new product areas or make acquisitions. The regulators no longer focus exclusively on the financial strength of a regulated firm, but also consider non financial resources available to the firm in assessing whether a firm continues to meet the threshold conditions. If the regulators were to believe that Virgin Money does not meet threshold conditions, they can remove or restrict Virgin Money's permissions or require a restructuring of its business.

Regulators and other policy making bodies in the UK and worldwide have produced and, in many cases, adopted a range of legislative and regulatory proposals and changes which have and could impose operational restrictions on Virgin Money, cause Virgin Money to raise further capital, increase Virgin Money's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects. Future changes in regulation, and/or fiscal or other policies, are unpredictable and beyond Virgin Money's control and could have a material effect on its business or operations. In particular:

- the Financial Services (Banking Reform) Act 2013 (the “**Banking Reform Act**”) has enacted a number of reforms primarily related to the UK banking sector, including the ring-fencing of certain activities. The secondary legislation setting out the detail of the ring-fencing regime exempts from ring-fencing those banks whose 'core deposits' (as defined in the secondary legislation and assessed on a group-wide basis) do not exceed £25 billion as a rolling average over a three-year period. Virgin Money plc expects to become a wholly ring-

fenced bank by 2019. Potential growth in Virgin Money plc's deposit levels would, based on Virgin Money's current understanding of the regulations, bring Virgin Money plc within the scope of application of the ring-fence in the future;

- the Bank Recovery and Resolution Directive (“**BRRD**”) established an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The rules implementing BRRD require Virgin Money Group to maintain a minimum amount of 'bail-in-able' liabilities expressed as a percentage of its total liabilities on its balance sheet. Accordingly, if Virgin Money Group does not meet the minimum requirements it will need to issue and find buyers for such bail-in-able debt. Until the required level of 'bail-in-able' liabilities that Virgin Money Group will need to hold has been finalised, the full impact of BRRD on Virgin Money cannot be ascertained. See “*Regulatory action in the event a bank or investment firm in the Virgin Money Group is failing or is likely to fail could materially adversely affect the value of the Securities*” below;
- failure to meet requirements of regulatory stress tests, or the failure by regulators to approve the stress test results and capital plans of Virgin Money, could result in Virgin Money being required to enhance its capital position, including, for example, an additional PRA buffer which may be set by the PRA in certain circumstances, as set out in the PRA's Policy Statement PS17/15 (“*Assessing capital adequacy under Pillar 2*”) and the related Statement of Policy (“*The PRA's methodologies for setting Pillar 2 capital*”). This may result in a need for management actions, such as reducing capital and/or leverage exposures and/or taking steps to conserve capital, which could include reducing discretionary payments (for example, potentially exercising the Issuer's discretion to cancel (in whole or in part) interest payments in respect of the Securities);
- the MCD asserts that Member States shall require creditors, credit intermediaries or appointed representatives (as applicable), among other things, to provide consumers with certain personalised pre-contractual information and to adhere to business conduct rules. The directive also requires calculation of the annual percentage rate of charge in accordance with a prescribed formula, imposes a ban on certain tying practices (i.e. offering or selling a credit agreement in a package of products, where the credit agreement is not also made available to the consumer separately) and requires that a consumer has a right to make early repayment. The MCD is slightly broader in scope than previous UK mortgage regulation and applies a standard approach to certain niche mortgage markets that the FCA did not previously regulate, including buy-to-let mortgages. The MCD provides Member States with the option not to apply the directive to buy-to-let mortgage lending, where an alternative appropriate framework for the regulation of this type of credit has been established. The UK government is utilising this option and has established a framework, set out in the Mortgage Credit Directive Order 2015 (SI 2015/910) (the “**MCD Order**”), that is supervised and enforced by the FCA. The MCD Order states that firms carrying on certain regulated activities must register with the FCA as a consumer buy-to-let mortgage firm before providing buy-to-let mortgage business. A registered consumer buy-to-let mortgage firm must comply with the detailed obligations and record-keeping requirements set out in the MCD Order. This is likely to result in an increase in Virgin Money's compliance costs associated with Virgin Money's mortgage business;
- the PRA published new standards on buy to let lending in September 2016 that are expected to come into effect in 2017. The changes follow a PRA review of underwriting standards in the buy-to-let sector. The PRA's actions are intended to bring all lenders up to prevailing market standards and guard against any slipping of underwriting standards during a period in which firms' growth plans could be challenged by the changing economic landscape and the impact of forthcoming tax changes. The PRA's supervisory statement outlines minimum expectations including new guidance on: (i) affordability assessments; (ii) lending to portfolio landlords (defined by the PRA as being those with four or more mortgaged buy-to-let properties); and (iii) clarification of the provision in Capital Requirements Regulation (CRR) which reduces the capital requirements on loans to small and medium-sized enterprises by around 25 per cent. Virgin Money is implementing a series of changes to lending criteria and affordability testing in preparation for the new requirements;
- on 6 November 2014, the CMA announced that it was commencing a market investigation in relation to both PCAs and aspects of SME banking. On 22 October 2015, the CMA published its initial findings which stated that a combination of certain features in the provision of PCAs (including barriers to switching PCA and low levels of customer engagement) give rise to an adverse effect on competition. The CMA published its final report on 9 August 2016 following a provisional decision on remedies in May 2016. The report contained a number of suggested actions designed to improve competition between UK banks and building societies and in particular to encourage customers to switch between PCA providers in order to get a better deal. The report also suggests some measures designed to attempt to reduce the amount of fees paid by customers to their bank or building society in relation to overdraft facilities. Given that the CMA's proposals are designed to promote competition, there can be no assurance that Virgin Money's customer base, levels of deposits or market share would not be adversely affected. The CMA's proposals may also reduce the fee income that Virgin Money receives in relation to customers' use of overdraft facilities. Given the comparatively small volume of PCAs that Virgin Money has, it is not expected that this impact should be any more substantial than as outlined above;

- in November 2014, the FCA launched a market study into credit cards, having taken over regulation of consumer credit in April 2014. The final findings report was published in July 2016 and found that although competition worked fairly well for most consumers, there was concern about the scale of potentially problematic debt. The FCA proposes to take forward a package of remedies that will enable consumers to shop around more effectively, budget more efficiently and – where appropriate – repay debt faster. For consumers in problem credit card debt, the FCA is proposing further action so firms address this specific issue and contact consumers before they get into financial difficulties;
- in September 2016 the Payment Accounts Directive will be implemented in the UK with aims to improve payment account fees comparison, payment account switching, and the ability for non-residents to open payment accounts. The Payment Accounts Directive was published in the Official Journal of the EU on 28 August 2014 and is being implemented in the UK through the PARs which generally come into force on 18 September 2016. Virgin Money may incur additional costs, for example, to put processes in place to meet the requirements regarding the comparison of fees, payment account switching and the ability for non-residents to open payment accounts and be subject to the threat of greater competition promoted by the PARs should such competition not prove to be an opportunity;
- on 13 January 2018, the Payment Services Directive (“**PSD2**”) will be implemented into UK law. PSD2 was published in the European Union's Official Journal on 23 December 2015. Certain provisions of the Directive that have been delegated to the European Banking Authority, such as the development of Regulatory Technical Standards will come into force up to 18 months later. PSD2 is a significant evolution of existing regulation for the payments industry. It aims to increase competition, bring into scope new types of payment services and enhance customer protection and security and extend the reach of the Directive. The implementation of PSD2 is likely to result in an increase in Virgin Money's compliance costs;
- the General Data Protection Regulation (“**GDPR**”) was adopted in April 2016 and, following a two year transition period, will come into force on 25 May 2018. The GDPR will apply directly to EU member states, replacing the previous Directive and is intended to modernise, strengthen and unify data protection within the EU;
- the Fourth EU Money Laundering Directive (“**4MLD**”) replaces the Third EU Money Laundering Directive and will be transposed into the UK Money Laundering Regulations once approved in the UK. The UK Government intends that the new provisions will come into force in national law on 26 June 2017, in line with the 4MLD deadline set by the European Union. The new directive signals a large shift and reinforces the risk based approach across all AML and CTF compliance programmes, such as the introduction of customer risk assessments for all customers, enhanced due diligence with increased monitoring and identifying beneficial ownership;
- in March 2015, the FCA, published the final findings from its retirement income market study. The study concluded that competition in this market was insufficient and proposed a number of remedies aimed at improving consumer choice, including requiring firms to provide annuity quotation rankings in order for consumers to easily identify whether they are getting the best deal. The FCA is continuing to monitor this market and published in July 2016 a Retirement Outcomes Review further to the retirement income market study. In addition, it has also published the results of its annuity comparison remedy with next steps for the design and implementation of that remedy. Future rule changes may have operational or regulatory implications for the market that could affect Virgin Money's unit trust management business;
- the directive and associated regulation on markets in financial instruments (together “**MiFID II/MiFIR**”) entered into force on 2 July 2014, with the majority of provisions originally set to apply from 3 January 2017. However, on 10 February 2016, the European Commission announced a proposal to extend the entry into application of MiFID II by one year to 3 January 2018. MiFID II/MiFIR bans firms who provide investment advice on an independent basis or who provide portfolio management from accepting or receiving fees, commissions or any other monetary or non-monetary benefits paid or provided by any third party (unless such non-monetary benefit is minor and meets certain additional criteria). MiFID II/MiFIR overlaps with the UK retail distribution rules (the “**RDR**”) which restrict commission payments to all investment advisers and not only “independent” investment advisers. The FCA has noted that the main impact of the MiFID II/MiFIR restrictions on inducements is on portfolio managers. Both the RDR and the MiFID II/MiFIR rules on inducements may affect Virgin Money's financial product investment business' profitability. MiFID II/MiFIR also introduced investor protection measures which include product governance requirements and enhanced suitability requirements. These requirements could increase the cost of distributing financial products to retail clients and increase the risk of non-compliance;
- in October 2015 the FCA published Consultation Paper 15/30: “*Pension reforms – proposed changes to our rules and guidance*”. This followed a thorough review of regulatory requirements in light of the Government's

pension reforms. Policy Statement PS16/12 was published in April 2016 to report on the main issues arising from Consultation Paper 15/30 and publish the final rules and guidance. The final rules, as they apply to Virgin Money: aim to improve communications with customers about retirement options; prevent firms promoting their own retirement vesting products over those on the open market; remove from being mandatory some retirement risk warnings for customers with 'small pots' (i.e. pension savings of £10,000 or less); make technical changes to maximum growth rates used in illustrations; prevent firms with CONC permissions pressuring customers to use pension savings to repay debt; and provide additional guidance for dealing with pension customers who are subject to an attachment or earmarking order on divorce;

- the PRA has published rules implementing the Financial Policy Committee (the “FPC”) recommendations on loan to income ratios in the UK residential mortgage market. The rules, set out in the Housing Part of the PRA Rulebook, require a firm to ensure that it limits the number of mortgage loans made 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 entered into in a calendar quarter. This measure is designed to reduce household indebtedness and to attempt to ensure that house prices do not rise faster than household income, as high levels of household indebtedness are associated with a high probability of household distress which can cause a sharp fall in consumer spending, which can weigh on wider economic activity. In addition, following discussion at the FPC's meeting on 26 September 2014, the FPC recommended that Her Majesty's Treasury (“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 (which would include Virgin Money plc) to place limits on owner-occupied residential mortgage lending by reference to: (a) loan to value ratios; and (b) debt to income ratios. In order to give effect to the FPC recommendations, the Bank of England 1998 (Macro-prudential Measures) Order 2015 came into force on 6 April 2015. In July 2015, the FPC published the final version of its policy statement on its powers over housing tools. It is possible that these changes, or any of the further recommendations which the FPC may issue, may affect the UK mortgage market, reduce the demand for Virgin Money's mortgage products or have a material adverse impact on Virgin Money's ability to meet its strategic lending targets;
- in addition, Virgin Money's business is affected by, or subject to the requirements of, the Consumer Rights Act 2015 (the “CRA”). The main provisions of the CRA came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the “UTCCR”). Although the CRA has revoked the UTCCR and introduced a new regime for dealing with unfair contractual terms, regulatory guidance on the CRA has confirmed that the changes to the unfair terms regime are not material in substance. As a result, the key unfair terms risk is that a failure to comply with the requirements of the CRA could mean that unfair terms are not binding or enforceable. This could affect Virgin Money's ability to recover on the accounts underlying its debt portfolios in the United Kingdom or restrict important rights it relies on; and
- finally, the unfair relationship provision in sections 140A-C of the CCA may apply to unsecured credit agreements and consumer credit back book mortgage contracts, giving the court power to determine an unfair relationship and to require Virgin Money to repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return to a surety any security provided by him, alter the terms of the agreement, direct accounts to be taken or otherwise set aside any duty imposed on the debtor or surety.

As Virgin Money is a bank, its principal regulator is the PRA. In addition, the CMA and FCA concurrently supervise unfair terms under the UTCCRs and the CRA. There is a Memorandum of Understanding dated 12 January 2016 that outlines the nature of this arrangement. Importantly, the Memorandum of Understanding clarifies that it is the FCA's responsibility to consider fairness within the meaning of the CRA and UTCCRs in financial services contracts issued by authorised firms or appointed representatives and take action where appropriate. Any such development may have a material adverse impact on Virgin Money's ability to manage its business efficiently and subject it to increased costs through managing an increasingly complex compliance burden.

In addition, it is possible that regulatory and/or legislative changes could prompt the development of new rules to, among other things, increase competition in the markets, or analogous or competing markets, in which Virgin Money operates. This could result in a material adverse impact or increased operational and compliance costs to the industry and therefore on Virgin Money. It is impossible to predict the effect that any of the proposed changes will have on Virgin Money's business, financial condition, results of operations and/or prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the UK Government and the European Commission. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on Virgin Money's operations, structure, costs and/or capital requirements. Accordingly, Virgin Money cannot ensure that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Virgin Money is required to pay levies under the Financial Services Compensation Scheme and is exposed to future increases of such levies, which might impact its profits

The regulatory response in the UK to the financial crisis of 2008 includes the imposition of levies by the Financial Services Compensation Scheme (“FSCS”). The FSCS pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The amount provided for in Virgin Money's accounts to meet its obligations to the FSCS was £6.6 million as at 31 December 2015 (compared to £8.7 million at 31 December 2014). While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be significant amounts that may, as a result, have a material effect on Virgin Money's profits. In common with other financial institutions which are subject to the FSCS, Virgin Money also has a potential exposure to future levies resulting from the failure of other financial institutions and claims which arise against the FSCS as a result of such failure. Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any further claims against the FSCS and subsequent increased FSCS levies payable by Virgin Money. Any such increases in Virgin Money's costs and liabilities related to the levy may have a material adverse effect on its results of operations.

In April 2014, the recast EU directive on deposit guarantee schemes (“DGSD2”) was adopted and was published in the Official Journal of the European Union on 12 June 2014. Member States had until 3 July 2015 to transpose the majority of the DGSD2 provisions into national law. DGSD2 introduced financing requirements on banks to contribute to their national deposit guarantee scheme at least annually. In addition, by 3 July 2024 Member States are required to ensure that the available financial means of a deposit guarantee scheme have reached a target pre-funded level of at least 0.8 per cent. of the amount of covered deposits that are held by the deposit guarantee scheme's member. This is a change from the previous operation of the UK financing scheme where fees were required after a payment to depositors had occurred. In cases where this pre-funded level is insufficient to cover payments to depositors, the deposit guarantee scheme can collect immediate post event contributions from the banking sector and, as a last resort, it can have access to alternative funding arrangements such as loans from third parties. In the UK, DGSD2 was transposed into law and regulation by HM Treasury and the PRA. The PRA's rules implementing DGSD2 are set out in the Depositor Protection Part of the PRA Rulebook (“DPRs”). The majority of the rules in the DPRs (including in relation to the funding of the deposit guarantee scheme) began to apply from 3 July 2015. In addition to a compensation costs levy, the DPRs permit management expenses levies and legacy costs levies to be imposed on deposit guarantee scheme members. It is therefore possible, as a result of DGSD2 and the DPRs, that future FSCS levies on Virgin Money plc may differ from those at present, and such reforms could result in Virgin Money incurring additional costs and liabilities, which may have a material adverse effect on its profitability.

Regulatory action in the event a bank or investment firm in the Virgin Money Group is failing or is likely to fail could materially adversely affect the value of the Securities

The BRRD provides an EU-wide framework for the recovery and resolution of credit institutions and investment firms, their subsidiaries and certain holding companies. 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 final PRA rules on contractual recognition of bail-in for liabilities came into force on 1 January 2016. The majority of the requirements of the BRRD (including the bail-in tool) were implemented by way of amendments to the Banking Act 2009, as amended (the “Banking Act”). For more information on the bail-in tool, see “*The Securities may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant UK regulatory authority of the bail-in or capital instruments write-down and conversion powers, which powers are in addition to the terms of the Securities which provide for Conversion on the occurrence of a Trigger Event*”.

Although the below represents the risks associated with the UK bail-in power currently in force in the UK and applicable to the Securities, changes to the scope of, or conditions for the exercise of the UK bail-in power may be introduced as a result of further developments, including those resulting from the outcome of the referendum on the UK's membership of the EU in favour of the UK leaving the EU.

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

Under the Banking Act, substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the PRA, the FCA and HM Treasury, as appropriate as part of a special resolution regime (the “SRR”). These powers enable the relevant UK resolution authority to implement resolution measures with respect to a UK bank or investment firm and certain of its affiliates that meet the definition of a “banking group company” (currently including the Issuer) (each a “**relevant entity**”) in circumstances in which the relevant UK resolution authority

is satisfied that the resolution conditions are met. Such conditions include that a UK bank or investment firm or a UK banking group company is failing or is likely to fail to satisfy the FSMA's threshold conditions (within the meaning of section 55B FSMA).

The SRR consists of five stabilisation options: (a) private sector transfer of all or part of the business or shares of the relevant entity; (b) transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; (c) transfer to an asset management vehicle wholly or partly owned by HM Treasury or the Bank of England; (d) the bail-in tool (as described below); and (e) temporary public ownership (nationalisation).

The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify contractual arrangements in certain circumstances (which could include a variation of the terms of the Securities), powers to suspend enforcement or termination rights that might be invoked as a result of the exercise of the resolution powers and powers for the relevant UK resolution authority to disapply or modify laws in the UK (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

A holder of the Securities should assume that, in a resolution situation, financial public support will only be available to a relevant entity as a last resort after the relevant UK resolution authorities have assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool.

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

The SRR is designed to be triggered prior to insolvency of the Issuer, and holders of the Securities may not be able to anticipate the exercise of any resolution power by the relevant UK resolution authority

The stabilisation options are intended to be used prior to the point at which any insolvency proceedings with respect to the relevant entity could have been initiated. The purpose of the stabilisation options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns.

Although the Banking Act provides specific conditions to the exercise of any resolution powers and, furthermore, European Banking Authority (the "EBA") guidelines published in May 2015 set out the objective elements for the resolution authorities to apply in determining whether an institution is failing or likely to fail, it is uncertain how the relevant UK resolution authority would assess such conditions in any particular pre-insolvency scenario affecting the Issuer and/or other members of the Virgin Money Group and in deciding whether to exercise a resolution power. The relevant UK resolution authority is also not required to provide any advance notice to holders of the Securities of its decision to exercise any resolution power. Therefore, holders of the Securities 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 Virgin Money Group and the Securities.

Holders may have only very limited rights to challenge the exercise of any resolution powers by the relevant UK resolution authority

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

The relevant UK resolution authority may exercise the bail-in tool in respect of the Issuer and the Securities, which may result in holders of the Securities losing some or all of their investment

Where the relevant statutory conditions for use of the bail-in tool have been met, the relevant UK resolution authority would be expected to exercise these powers without the consent of the holders. Any such exercise of the bail-in tool in respect of the Issuer and the Securities may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Securities and/or the conversion of the Securities into shares or other securities or other obligations of the Issuer or another person, or any other modification or variation to the terms of the Securities.

The Banking Act specifies the order in which the bail-in tool should be applied, reflecting the hierarchy of capital instruments under CRD IV and otherwise respecting the hierarchy of claims in an ordinary insolvency. In addition, the bail-in tool contains an express safeguard (known as 'no creditor worse off') with the aim that shareholders and creditors do not receive a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity.

The exercise of the bail-in tool in respect of the Issuer and the Securities or any suggestion of any such exercise could materially adversely affect the rights of the holders, the price or value of their investment in the Securities and/or the

ability of the Issuer to satisfy its obligations under the Securities and could lead to holders losing some or all of the value of their investment in such Securities.

Mandatory write-down and conversion of capital instruments may affect the Securities

In addition, the Banking Act requires the relevant UK resolution authority to permanently write-down, or convert into equity, tier 1 capital instruments (such as the Securities) 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 where the bail-in tool is to be utilised for other liabilities, in which case such instruments 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).

Securityholders may be subject to write-down or conversion into equity on application of such powers (without requiring such holders' consent), which may result in such holders losing some or all of their investment. Moreover, in this regard, tier 1 capital instruments (such as the Securities), are second in rank in the sequence of securities subject to loss absorption, after common equity tier 1 instruments. As such, this may increase any risk of the holders' holdings becoming subject to write down or conversion action. The 'no creditor worse off' safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised.

The exercise of such mandatory write-down and conversion power under the Banking Act or any suggestion of such exercise could, therefore, materially adversely affect the rights of Holders of the Securities, the price or value of their investment in the Securities and/or the ability of the Issuer to satisfy its obligations under the Securities.

Minimum requirement for own funds and eligible liabilities and total loss absorbing capacity

To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet an individual minimum requirement for own funds and eligible liabilities (“**MREL**”) requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with “eligible liabilities”. In December 2015, the Bank of England published a consultation paper entitled “*The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) - Consultation on a proposed Statement of Policy*”. The consultation paper sets out the Bank of England's proposed policy for exercising its power to direct institutions to maintain a minimum requirement for MREL under section 3A(4) of the Banking Act. Although the provisions of the BRRD transposed into UK law relating to MREL took effect from the 1 January 2016, the Bank of England has confirmed that it intends to make use of the transition period allowed by the BRRD and the draft EBA regulatory technical standards on the criteria for determining MREL and proposes in most cases to require institutions to comply with MREL requirements from 1 January 2020 (or 2019 for globally systemically important institutions (“**G-SIIs**”)). Until such time, an institution's MREL requirement will be set equal to the applicable minimum capital requirement. The Bank of England is due to publish its final rules on the transposition of these rules in the UK, including with respect to how they will interact with the total loss absorbing capacity (“**TLAC**”) standards for G-SIIs described below.

The Financial Stability Board (the “**FSB**”) has recommended the adoption of TLAC requirements for G-SIIs in addition to existing minimum regulatory capital requirements. The Bank of England has indicated that it intends to set MREL for UK G-SIIs as necessary to implement the TLAC standards recommended by the FSB and that it will also set similar requirements for all institutions where the preferred resolution strategy is bail-in (such as the Issuer). The TLAC standards currently contemplate that only Common Equity Tier 1 capital in excess of that required to satisfy minimum TLAC requirements may count towards regulatory capital buffers, including those described below. As a result of these proposals, the Issuer's capital requirements, in particular requirements that it holds sufficient amounts of Common Equity Tier 1 capital, may effectively be increased.

The MREL rules are also subject to further implementation and guidance at the European level, with a final report expected from the European Banking Authority (“**EBA**”) by the end of October 2016 and a legislative proposal reviewing MREL and the implementation of the TLAC standards to be published by the European Commission by the end of 2016.

Until these measures are finally applied to the Issuer and the Virgin Money Group, it is not possible to determine the ultimate scope and nature of any resulting obligations for the Issuer or the Virgin Money Group, nor the impact that they will have on the Issuer or the Virgin Money Group once implemented. If the FSB's and EBA's proposals are implemented in their current form however, it is possible that, the Issuer and/or other members of the Virgin Money Group may have to issue MREL eligible liabilities in order to meet the new requirements within the required timeframes and/or alter the quantity and type of internal capital and funding arrangements within the Virgin Money Group. During periods of market dislocation, or when there is significant competition for the type of funding that the Virgin Money Group needs, a requirement to increase the Virgin Money Group's MREL eligible liabilities in order to meet MREL targets may prove more difficult and/or costly. More generally, these proposals could increase the Virgin Money Group's costs and may lead to asset sales and/or other balance sheet reductions. The effects of these proposals could all adversely

impact the results of operations, financial condition and prospects of the Virgin Money Group and, in turn, adversely affect the value of the Securities.

Virgin Money is subject to regulatory capital requirements that are subject to change and may result in additional capital requirements for Virgin Money

Virgin Money is subject to capital adequacy requirements adopted by the PRA. Virgin Money's ability to do business could be constrained if it fails to maintain sufficient levels of capital. Further, if Virgin Money fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against it. Effective management of Virgin Money's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits Virgin Money's ability to manage its balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of credit losses, write downs or otherwise, increases in risk weighted assets, delays in the disposal of certain assets or the inability to raise finance through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Virgin Money 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. Virgin Money's borrowing costs and capital requirements could be affected by these prudential regulatory developments, which include the legislative package, CRD IV, implementing the proposals of the Basel Committee (known as "**Basel III**") in the EU and repealing the existing capital requirements directives and other regulatory developments impacting capital, leverage, liquidity positions (including the imposition of the Liquidity Coverage Ratio and the Net Stable Funding Ratio) and its legal entity structure (including with regard to issuance and deployment of capital and funding for the Virgin Money Group). Any future unfavourable regulatory developments could have a material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects.

A market perception or actual shortage of capital issued by Virgin Money could result in regulatory and/or governmental interventions, including requiring Virgin Money to issue additional capital instruments or issuing a public censure or the imposition of sanctions.

Derivative regulation

The ongoing reforms of derivatives markets are likely to increase Virgin Money's costs in respect of its OTC derivative transactions. The requirements under the European Market Infrastructure Regulation ("**EMIR**") (EU Regulation No. 648/2012 on OTC derivatives, central counterparties and trade repositories) in respect of the margin requirements for uncleared derivatives transactions are yet to be fully finalised. Further market reforms will be introduced by MiFID2/MiFIR (Directive 2014/65/EU and EU Regulation No. 600/2014 on markets and financial instruments). The full impact of these changes is not yet known but the Virgin Money Group's costs in respect of its derivatives transactions are likely to increase.

Virgin Money is subject to structural operational requirements that may impact on its cost of operation

As a result of the financial crisis, and in particular the collapse of certain financial institutions during the crisis, there has been a significant regulatory emphasis on minimising the impact of the failure of any one institution on the customers of that institution or the wider economy. In response to this concern, in July 2016, the PRA published its rules on ensuring operational continuity in resolution together with its policy statement and supervisory statement on the same (together, the Operational Continuity Rules). The Operational Continuity Rules will apply from 1 January 2019. The Operational Continuity Rules require certain firms, including the Virgin Money, to ensure that they can continue to receive critical services and supporting functions that are critical to both themselves and the wider economy during any failure or threatened failure of the firm. Additionally, the PRA is currently consulting on reporting requirements that will supplement the existing Operational Continuity Rules. Compliance with these rules may cause Virgin Money to incur additional ongoing expenses which may affect its profitability.

Virgin Money is exposed to many forms of legal and regulatory risk

Virgin Money is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. In particular:

1. the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue; the FCA in particular focuses on retail conduct risk issues, as well as conduct of business activities through its supervision activity;
2. certain aspects of its business may be determined by the PRA, the FCA, the CMA, HM Treasury, the Financial Ombudsman Service or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Financial Ombudsman Service, with what is fair and reasonable in the Ombudsman's opinion;

3. the FCA introduced new rules into its handbook as a result of the MMR, which launched in 2009. The majority of these rules took effect on 26 April 2014 and include, among other things, a requirement for lenders to undertake a customer loan-affordability assessment in accordance with detailed requirements, transitional arrangements that (in limited circumstances) allow lenders to provide new mortgages or deal to customers with existing loans who may not meet the MMR requirements for the loan, a ban on self-certified loans and new requirements relating to interest-only loans. The FCA is currently reviewing firms' implementation of the revised rules and: (i) recently published a report following a thematic review concerning the quality and suitability of mortgage advice provided by firms; and (ii) began a further thematic review on responsible lending in April 2015, on which it expects to report in the first half of 2016. This is in addition to regulatory reforms being made as a result of the implementation of the Mortgage Credit Directive from 21 March 2016. It is possible that further changes may be made to the FCA's MCOB rules as a result of these reviews and regulatory reforms;
4. Virgin Money may breach or face allegations of having breached legal and regulatory requirements in respect of business originated by it or which it has acquired, including Northern Rock plc. These requirements include, but are not limited to, conduct requirements, data protection, money laundering and anti terrorism financing requirements;
5. as is common with many other consumer credit lenders in the UK, Virgin Money's credit agreements may not in all circumstances comply in all respects with the Consumer Credit Act 1974 ("CCA") or other related or similar legislation (such as 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. In addition, it is possible, in certain circumstances, that Virgin Money'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 Virgin Money has failed to comply with the requirements of the CCA;
6. the 2014 transfer of consumer credit regulation from the Office of Fair Trading to the FCA from 1 April 2014 may result in the FCA carrying out historical reviews of credit agreements (whether originated by Virgin Money or acquired by Virgin Money as part of loan portfolio acquisitions) which now fall under its jurisdiction. This could result in the FCA imposing sanctions in relation to existing agreements and imposing new requirements in respect of future agreements thereby adversely impacting the financial position and performance of Virgin Money's credit card business;
7. any alleged 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, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, all or any of which could result in the incurrence of significant costs, may require provisions to be recorded in Virgin Money's financial statements and may materially adversely affect future revenues from affected products;
8. as mentioned above in the context of fair relationships, even if Virgin Money complies with the relevant regulatory rules, an English court might still find that an unfair relationship exists through consideration of a wider range of factors than those contemplated by such rules (*Plevin v Paragon* [2014] UKSC 61). In November 2015, the FCA published its Consultation Paper CP 15/39 entitled "*Rules and guidance on payment protection insurance complaints*" and is currently consulting on such new rules and/or guidance intended to deal with the impact of the judgment on complaints about PPI. Although PPI complaints are not relevant here, the results of the consultation may more generally lead to an increase in the volume of *Plevin*-based unfair relationship claims;
9. as mentioned above, the provisions in the CRA governing unfair contractual terms came into force on 1 October 2015. The Unfair Contract Terms Regulatory Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its formal powers under the CRA and the CMA published guidance on the unfair terms provisions in the CRA on 31 July 2015. This new regime does not seem to be significantly different from the regime under the UTCCR. However, this area of law is rapidly developing and may give rise to new regulator guidance and case law;
10. the Consumer Protection from Unfair Trading Regulations 2008 (the "CPUTRs") came into effect on 26 May 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. The CPUTRs prohibit commercial practices which are unfair, as well as aggressive and misleading practices. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and

conduct of business rules. Nonetheless, breach of the CPUTRs would be likely to initiate intervention by a regulator and may lead to criminal sanctions. Importantly, consumers can also bring private claims for damages in certain circumstances;

11. contractual obligations may either not be enforceable as intended or may be enforced against Virgin Money in an adverse way;
12. intellectual property may not be protected as intended or Virgin Money may use intellectual property which infringes, or is alleged to infringe, the rights of third parties; and
13. Virgin Money may be liable for damages to third parties harmed by the manner in which it has conducted one or more aspects of its business.

Failure to manage these risks adequately, or a failure by Virgin Money to have identified any such risks in the assets it acquired as a result of its acquisition of Northern Rock plc or as a result of any other subsequent asset portfolio acquisitions (including the further mortgage portfolio acquired from NRAM on 20 July 2012 and the acquisition of the Virgin Money branded credit card portfolio held by MBNA), could lead to significant liabilities or reputational damage and have a material adverse effect on Virgin Money's relations with its customers. In addition, Virgin Money may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on Virgin Money's business. All of these issues could have a negative effect on Virgin Money's reputation and the confidence of its customers in Virgin Money, as well as taking a significant amount of management time and resources away from the implementation of Virgin Money's strategy.

Virgin Money also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the English High Court or elsewhere, or where complaints are made against it or members of its industry generally to the Financial Ombudsman Service or another relevant body.

There is currently a significant regulatory focus on the fairness of contract terms, sales practices and reward structures that financial institutions have used when selling financial products. Financial institutions (including Virgin Money) may incur liability for past actions which are determined to have been inappropriate and any such liability incurred could be significant and have a material adverse effect on Virgin Money's reputation, business, financial condition, results of operations and/or prospects.

Virgin Money is exposed to the risk of changes in tax legislation and its interpretation and to variances in the rate of corporate and other taxes

Virgin Money's activities are principally conducted in the UK and it is therefore subject to a range of UK taxes at various rates. Future actions by the UK Government to adjust tax rates or to impose additional taxes would reduce Virgin Money's profitability. Revisions to tax legislation or to its interpretation might also affect Virgin Money's financial condition in the future. In addition, Virgin Money is subject to periodic tax audits which could result in additional tax assessments, which may be material, relating to past periods being made. Any such assessments could be material which might also affect Virgin Money's financial condition in the future.

Virgin Money is presently not subject to the UK bank levy provided for by the Finance Act 2011 as many of its eligible liabilities are covered by the deposit protection scheme. Growth in eligible liabilities or developments in bank levy legislation may expose Virgin Money to the bank levy in the future.

UK's exit from the European Union

On 23 June 2016 the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union. As a result, there are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are confirmed, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Issuer.

Investors should also note that future UK political developments, including but not limited to the UK departure from the EU and/or any changes in government structure and policies, could affect the fiscal, monetary and regulatory landscape to which Virgin Money is subject and also therefore its financing availability and terms. Consequently no assurance can be given that Virgin Money's operating results, financial condition and prospects would not be adversely impacted as a result.

It is not currently expected that there will be any legal or regulatory changes related to the UK's departure from the EU prior to the date that the UK actually leaves the EU. On 24 June 2016 the FCA released a statement confirming that firms must continue to abide by their obligations under UK law, including those derived from EU law, and continue with implementation plans for legislation that is still to come into effect. Mark Carney, the Governor of the Bank of England, re-enforced this position during the Financial Stability Report Press Conference on 5 July 2016 and stated that "nothing in financial regulation will change until the process of the UK's withdrawal from the European Union is complete, and EU law ceases to have effect in the UK".

In general, no assurance can be given that any of the matters outlined above would not adversely affect the ability of the Issuer to satisfy its obligations under the Securities and/or the market value or liquidity of the Securities.

Virgin Money has significant shareholders whose interests may differ from those of investors in the Securities

As at 30 June 2016, Virgin Group Holdings Limited (the "**Controlling Shareholder**") owns 34.89 per cent. of the voting rights of the Issuer. The interests of the Controlling Shareholder could conflict with those of Virgin Money and investors in the Securities. The Issuer is party to a relationship agreement with the Controlling Shareholder (the "**Relationship Agreement**"), to ensure that Virgin Money is capable at all times of carrying on its business independently of its Controlling Shareholder (as defined in the FCA's Listing Rules) and their associates. While it remains a significant shareholder of the Issuer, the Controlling Shareholder will, subject to the terms of the Relationship Agreement, have the power, among other things, to take actions which may favour the shareholders at the expense of the holders of securities such as the Securities.

As at 30 June 2016, WLR IV VM LLC and WLR IV VM II LLC (together, a "**Major Shareholder**") own 3.5 and 8.6 per cent., respectively of the voting rights of the Issuer. The interests of the Major Shareholder could conflict with those of Virgin Money and investors in the Securities. The Issuer is also party to a relationship agreement with the Major Shareholder but the independence provisions which apply to the Controlling Shareholder, as referenced above, no longer apply to the Major Shareholder as the Major Shareholder ceased to be a 'controlling shareholder' (for the purposes of the FCA's Listing Rules) on 20 April 2015. The Major Shareholder is entitled to certain information concerning the Issuer and the right to appoint a nominee director which, as at 31 December 2015, the Major Shareholder has chosen not to exercise.

Virgin Money is licensed to use its name and brand but does not own them

In order for Virgin Money to continue to use the "Virgin" and "Virgin Money" names and brands, Virgin Money is required to comply with certain obligations under the trademark licence agreement entered into between the Issuer and Virgin Enterprises Limited ("**VEL**") on 1 October 2014 and amended on 25 July 2016 ("**Virgin Money Trade Mark Licence Agreement**").

The Virgin Money Trade Mark Licence Agreement has a perpetual term. VEL has the right to terminate the Virgin Money Trade Mark Licence Agreement if Virgin Money challenges VEL's ownership of, entitlement to licence and/or the validity of certain of the licensed trademarks, upon the Issuer's insolvency, upon the Issuer's material, unremedied breach of the Virgin Money Trade Mark Licence Agreement or if the Issuer undergoes a change of control which is not permitted under the Virgin Money Trade Mark Licence Agreement. Loss of Virgin Money's rights to use the Virgin and Virgin Money names and brands under the Virgin Money Trade Mark Licence Agreement could have a material adverse effect on Virgin Money's business, financial condition, results of operations and/or prospects.

VEL may allow other VEL licensees to use the Virgin names and brands for financial products and services in certain defined circumstances. The use by any other VEL licensee of the Virgin name in relation to financial services and products represents a minor dilution of Virgin Money's exclusivity in the financial services field, and could (i) create customer confusion and (ii) create potential reputational damage if the VEL licensee providing the ancillary financial products or services does anything to damage the goodwill of the brand.

RISKS RELATED TO THE SECURITIES

The obligations of the Issuer in respect of the Securities are unsecured and deeply subordinated, and the rights of the holders of Ordinary Shares will be further subordinated.

The Securities constitute direct, unsecured and subordinated obligations of the Issuer.

On a Winding-Up, all claims in respect of the Securities will rank junior to the claims of all Senior Creditors of the Issuer. If, on a Winding-Up which commences prior to a Trigger Event, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Securityholders will lose their entire investment in the Securities. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Securities and all

other claims that rank *pari passu* with the Securities, Securityholders will lose some (which may be substantially all) of their investment in the Securities.

For the avoidance of doubt, the Securityholders shall, in a Winding-Up which commences prior to a Trigger Event, have no claim in respect of the surplus assets (if any) of the Issuer remaining in any Winding-Up following payment of all amounts due in respect of the liabilities of the Issuer.

In addition, as further described below under “*The Securities may be subject to Conversion following the occurrence of a Trigger Event and, as a result, Securityholders could lose all or some of the value of their investment in the Securities*”, the Securities will, in certain circumstances, be irrevocably (without the need for the consent of Securityholders) discharged and satisfied by their Conversion into Ordinary Shares of the Issuer. The claims of holders of Ordinary Shares in a Winding-Up are the most junior-ranking of all claims. Claims in respect of Ordinary Shares are not for a fixed principal amount, but rather are limited to a share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Issuer.

Therefore, if a Winding-Up occurs following a Trigger Event, each Securityholder will be effectively further subordinated from being the holder of a subordinated investment to being the holder of Ordinary Shares, will not have a claim for a fixed amount in the Winding-Up and there is an enhanced risk that holders will lose all or some of the value of their investment.

Although the Securities may pay a higher rate of interest than notes which are not subordinated, there is a substantial risk that investors in the Securities will lose all or some of the value of their investment should the Issuer become insolvent.

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

There is no restriction on the amount of securities that the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or *pari passu* with, the Securities. The issue of any such securities and/or the assumption of any such other obligations may reduce the amount (if any) recoverable by Securityholders on a Winding-Up and/or may increase the likelihood of a cancellation of Interest Amounts under the Securities. In addition, the Securities do not contain any restriction on the Issuer’s ability to issue securities that may have preferential rights to those of the Securities or securities with similar, different or no conversion provisions.

There are no events of default under the Securities and rights of enforcement are limited.

The Terms and Conditions of the Securities do not provide for events of default allowing acceleration of the Securities. Accordingly, if the Issuer fails to make a payment that has become due under the Securities, investors will not have the right to accelerate the principal amount of the Securities. Upon a payment default by the Issuer, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions of the Securities) any Securityholder will be to institute proceedings in England (but not elsewhere) for the Winding-Up. The Trustee may claim in any Winding-Up (whether or not such Winding-Up is instituted by the Trustee) and claim in such Winding-Up for the amounts provided in Condition 4, and may take no other or further action to enforce, prove or claim for such payment. The Issuer (other than in a Winding-Up) will not be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

If Ordinary Shares are not issued and delivered to the Settlement Share Depository following a Trigger Event, the only claims the Trustee (and, to the extent applicable, the Securityholders) will have against the Issuer will be to apply to the court to obtain an order requiring the Issuer to issue and deliver such Ordinary Shares and to participate in the liquidation proceeds of the Issuer as if the Ordinary Shares had been issued.

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

The Issuer may at any time elect, in its sole discretion, to cancel any interest payment (in whole or in part) on the Securities which would otherwise be due on any Interest Payment Date. Additionally, the PRA has the power under 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 Securities).

Furthermore, the Issuer will be required to cancel any Interest Amount (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such Interest Amount would: (i) 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 paid or made on Tier 2 Capital items or which have already been provided for, by way of

deduction, in calculating the amount of Distributable Items), exceed the Distributable Items of the Issuer as at such Interest Payment Date; (ii) cause any Maximum Distributable Amount then applicable to the Issuer Group to be exceeded; or (iii) result in a breach of the Solvency Condition described in Condition 3.2.

In addition, if a Trigger Event occurs, the Issuer will cancel all interest accrued up to (and including) the Conversion Date.

With respect to cancellation of interest due to insufficient Distributable Items, see also *“The level of the Issuer’s Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Securities.”* below. With respect to cancellation of interest due to the application of a Maximum Distributable Amount, see also *“CRD IV introduced capital requirements that restrict the Issuer from making interest payments on the Securities in certain circumstances and provides the PRA with the power to restrict the Issuer from making such interest payments, in which case the Issuer will automatically cancel such interest payments, and Securityholders may not be able to anticipate whether or when the Issuer will cancel such interest payments. The BRRD also contains requirements which restrict payments of interest by banks subject to resolution proceedings. The introduction of additional capital requirements in the future may further impact the Issuer’s ability to make interest payments on the Securities”* below.

Any interest 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 interest in accordance with the Conditions will not constitute a default of the Issuer under the Securities for any purpose.

If the Issuer elects to cancel, or is prohibited from paying, interest on the Securities at any time, there is no restriction (other than any 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 or any other securities issued by any member of the Group, including securities ranking *pari passu* with or junior to the Securities. 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 the Issuer 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 Securities are senior in ranking to the Ordinary Shares. It is the Board of the Issuer’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 Securities, the Board of the Issuer will take into account the relative ranking of these instruments in its capital structure. However, the Board of the Issuer may at any time depart from this policy at its sole discretion.

Any actual or anticipated cancellation of interest on the Securities will likely have an adverse effect on the market price of the Securities. In addition, as a result of the interest cancellation provisions of the Securities, the market price of the Securities 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 Issuer Group is trending towards the combined capital buffer requirement (the level at which the Maximum Distributable Amount restriction under the CRD IV Directive becomes relevant) may have an adverse effect on the market price of the Securities.

The level of the Issuer’s Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Securities.

The Issuer will be required to cancel any Interest Amount (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such Interest Amount would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Issuer.

The level of the Issuer’s Distributable Items may be affected by a number of factors. The Issuer’s future Distributable Items, and therefore the ability of the Issuer to make interest payments under the Securities, are a function of the Issuer’s existing Distributable Items and its future profitability. In addition, the Issuer’s Distributable Items may also be adversely affected by the servicing of more senior instruments or parity ranking instruments.

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

As a holding company, the level of the Issuer’s Distributable Items may be affected by a number of factors, principally the Issuer’s ability to receive funds, directly or indirectly, from its operating subsidiaries in a manner which creates

Distributable Items for the Issuer. Consequently, the Issuer's future Distributable Items, and therefore its ability to make interest payments, are a function of its existing Distributable Items, future Issuer Group profitability and performance and the ability of its operating subsidiaries to distribute or dividend profits up the Issuer Group structure to the Issuer.

The level of the Issuer's Distributable Items may be 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. The ability of the Issuer's subsidiaries to pay dividends and the Issuer's ability to receive distributions and other payments from its investments in other entities is also subject to applicable local laws and other restrictions, including their respective regulatory and capital requirements, statutory reserves, financial and operating performance and applicable tax laws, and any changes thereto. These laws and restrictions could limit the payment of dividends, distributions and other payments to the Issuer by its subsidiaries, which could in time restrict the Issuer's ability to fund other operations or to maintain or increase its Distributable Items. These factors could, in turn, restrict the Issuer's ability to make interest payments on the Securities.

CRD IV introduced capital requirements that restrict the Issuer from making interest payments on the Securities in certain circumstances and provides the PRA with the power to restrict the Issuer from making such interest payments, in which case the Issuer will automatically cancel such interest payments, and Securityholders may not be able to anticipate whether or when the Issuer will cancel such interest payments. The BRRD (as defined below) also contains requirements which restrict payments of interest by banks subject to resolution proceedings. The introduction of additional capital requirements in the future may further impact the Issuer's ability to make interest payments on the Securities.

The Issuer will be required to cancel any Interest Amount (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such Interest Amount would cause any Maximum Distributable Amount then applicable to the Issuer Group to be exceeded.

Under CRD IV, the Issuer is required, on a consolidated basis, to hold a minimum amount of regulatory capital equal to 8 per cent. of risk weighted assets ("**Pillar 1 requirement**"). In addition to these so-called "own funds" requirements under CRD IV, supervisory authorities may add extra capital requirements to cover risks they believe are not covered, or are insufficiently covered, by the minimum capital requirements under CRD IV ("**Pillar 2A requirements**") and the Issuer may also decide to hold an additional amount of capital. Since 1 January 2015, 56 per cent. of the Issuer's total Pillar 2A requirements must be met with Common Equity Tier 1 capital. CRD IV also introduced capital buffer requirements that are in addition to the minimum capital requirement and required to be met with Common Equity Tier 1 capital. It introduced five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the G-SIIs buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Issuer Group as determined by the PRA.

The combination of the capital conservation buffer (which, subject to transitional provisions, will be set at 2.5 per cent. from 2019), the institution-specific counter-cyclical buffer (which is currently set at 0 but may be up to 2.5 per cent. or higher in the future) and the higher of (depending on the institution), the systemic risk buffer, the G-SIIs buffer and the other systemically important institution buffer, in each case (as applicable to the institution) is referred to as the "**combined buffer requirement**". These rules have been transposed in the UK and entered into force on 1 May 2014 so far as they relate to the counter-cyclical capital buffer, and on 1 January 2016 so far as they relate to the capital conservation buffer and the G-SIIs buffer. The Issuer is not a G-SII and so does not need to hold capital for the purposes of the G-SII buffer. The systemic risk buffer will be applicable from 1 January 2019, and the Bank of England's Financial Policy Committee (the "**FPC**") will be responsible for determining which institutions should hold the systemic risk buffer, and if so, how large the buffer should be, within a range of 0 to 3 per cent. of a firm's risk weighted assets. The PRA, which is responsible for applying the framework set by the FPC, has indicated that it will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

The PRA has also introduced a firm specific Pillar 2B buffer requirement ("**PRA buffer**") which is based on various factors including firm-specific stress test results, credible recovery and resolution planning, leverage, systemic importance and weaknesses in the firms' risk management and governance. The PRA buffer is to be set at a level which the PRA believes will ensure that a bank can continue to meet minimum Pillar 1 and Pillar 2A requirements during a stressed period. The PRA will assess the PRA buffer applicable to an institution annually (or more often if a firm's circumstances change) and UK banks are required to meet the higher of the combined buffer requirement and the PRA buffer. The PRA recently issued a statement of policy on its methodology for setting Pillar 2 capital and a policy statement PS17/15 "*Assessing Capital Adequacy under Pillar 2*", pursuant to which the new PRA buffer should be met with 100 per cent. Common Equity Tier 1 capital consistently with the CRD IV buffers by 2019 (subject to transitional arrangements from 2016 starting with 25 per cent. of Common Equity Tier 1 capital) which would be in addition to the Common Equity Tier 1 capital used to meet CRD IV buffers or Pillar 1 and Pillar 2A capital requirements. The PRA will set this PRA buffer if it judges that the CRD IV buffers are inadequate for a particular firm given its vulnerability in a

stress scenario, and will also consider, among other things, any risks identified by the PRA relating to management and governance failings, which the CRD IV buffers are not intended to address, the status of an institution as a systematically important firm and the availability of management actions. Unlike the CRD IV buffers described above, trigger of the PRA buffer will not lead to the automatic capital distribution restrictions described in the following paragraph. However, if the PRA determines that a firm has insufficient capital to meet its PRA buffer, it will be subject to enhanced supervisory action and will be required to prepare a capital restoration plan. In addition, any increases in the Issuer's PRA buffer requirements would require it to hold additional CET1 capital and therefore may increase the risk that the restrictions set out in Article 141 of CRD IV apply.

Under Article 141 (Restrictions on distributions) of the CRD IV Directive, EU Member States must require that institutions that fail to meet the combined buffer requirement will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to Common Equity Tier 1 and Additional Tier 1 instruments and variable remuneration). The 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 distribution of profits or "discretionary payment". 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 it may be necessary to reduce discretionary payments, including potentially exercising the discretion to cancel (in whole or in part) interest payments in respect of the Securities. The interaction of such restrictions on distributions (including interest payments on the Securities) with the capital requirements and buffers referred to above, remains uncertain in many respects. Such uncertainty is expected to continue while the relevant authorities in the EU and the UK consult on and develop their proposals and provide guidance on the application of the rules.

In addition, in accordance with Article 63(j) of the BRRD (as defined below), the PRA has the power to alter the amount of interest payable under debt instruments issued by banks subject to resolution proceedings and the date on which the interest becomes payable under the debt instrument (including the power to suspend payment for a temporary period). In addition, the PRA also has the power under section 55M of the Financial Services and Markets Act 2000 (implementing Article 104 of CRD IV) to impose requirements on the Issuer, the effect of which will be to restrict or prohibit payments of interest by the Issuer to Securityholders, which is most likely to materialise if at any time the Issuer is failing, or is expected to fail, to meet its capital requirements. If the PRA exercises its discretion, the Issuer will exercise its discretion to cancel (in whole or in part, as required by the PRA) interest payments in respect of the Securities.

The Issuer currently intends to maintain an internal management buffer comprising Common Equity Tier 1 capital over the combined buffer requirement. There can be no assurance, however, that the Issuer will continue to maintain such internal management buffer or that any such buffer would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Securities. See further "*The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Securities.*" above.

The Issuer's capital requirements, including Pillar 2A 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. Investors in the Securities may not be able to assess or predict accurately the proximity of the risk of discretionary payments on the Securities being prohibited from time to time as a result of the operation of Article 141 of CRD IV.

The Issuer's ability to make payments on the Securities may be further impacted by current regulatory proposals relating to loss-absorbing capital. See further "*Regulatory action in the event a bank or investment firm in the Virgin Money Group is failing or is likely to fail could materially adversely affect the value of the Securities - Minimum requirement for own funds and eligible liabilities and total loss absorbing capacity*". If UK authorities implement the MREL requirement in accordance with the FSB's TLAC term sheet, the Issuer's combined buffer requirement will effectively be applied not only above Pillar 1 "own funds" and Pillar 2A requirements but also above MREL requirements. The implementation of the BRRD's MREL requirements and TLAC requirements may, therefore, result in an increased risk of a breach of the Issuer's combined buffer requirement, triggering the restrictions relating to Article 141 of CRD IV. As a consequence, it may be necessary to reduce discretionary payments (in whole or in part), including potentially exercising the Issuer's discretion to cancel (in whole or in part) interest payments in respect of the Securities. Such cancellation could affect the market value of the Securities.

There can be no assurance that any of the capital requirements or capital buffer requirements applicable to the Issuer will not be amended in the future (including as a result of developments relating to the outcome of the referendum on the UK's membership of the EU in favour of the UK leaving the EU) to include new and more onerous capital requirements, which in turn may affect the Issuer's capacity to make payments of interest on the Securities.

The Securities 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 Securities may trade, and/or the prices for the Securities may appear, on the Euro MTF market of the Luxembourg Stock Exchange and in other trading systems with accrued interest. If this occurs, purchasers of Securities in the secondary market will pay a price that reflects such accrued interest upon purchase of the Securities. 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 Securities 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. This may affect the value of any investment in the Securities.

The Securities will be subject to Conversion following the occurrence of a Trigger Event and, as a result, Securityholders could lose all or some of the value of their investment in the Securities.

The Securities are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Issuer. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Terms and Conditions of the Securities. One of these relates to the ability of the Securities and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, if the Issuer Group's Common Equity Tier 1 Capital Ratio (calculated without applying the transitional measures set out in Part Ten of the CRD IV Regulation) falls below 7.00 per cent. (a Trigger Event): (a) the Issuer will cancel all accrued and unpaid interest up to (and including) the Conversion Date (whether or not such interest has become due for payment); (b) the obligations of the Issuer under the Securities of each Securityholder shall be irrevocably (without the need for the consent of Securityholders) discharged and satisfied by the Issuer's issuance and delivery to the Settlement Shares Depository of such number of Ordinary Shares as is equal to the aggregate principal amount of that Securityholder's Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares. The Conversion Price shall be £2.96 (subject to adjustment in the circumstances provided in Condition 8). See Condition 8 of the Securities.

A Conversion shall be deemed effective with effect from the relevant Conversion Date stated in the Conversion Trigger Notice to be given by the Issuer and without the requirement for any further formality. Upon Conversion, the principal amount of the Securities will be written down in full and all of the Issuer's obligations under the Securities shall be automatically and irrevocably discharged and satisfied by the Issuer's issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depository on the Conversion Date. Once the principal amount of a Security has been written down, the principal amount of such Security will not be restored in any circumstances (including where the relevant Trigger Event ceases to continue), no further interest will accrue or be payable on such Security at any time thereafter and the Securityholders shall have no recourse to the Issuer for any further payment in respect of the Securities (but without prejudice to the right of the Securityholders to receive the relevant number of Ordinary Shares). As a result, Securityholders could lose all or part of the value of their investment in the Securities, as, following Conversion, they will receive only (i) the Ordinary Shares (if the Issuer does not elect that a Conversion Shares Offer be made), or (ii) the Alternative Consideration, which shall be composed of Ordinary Shares and/or cash depending on the results of the Conversion Shares Offer (if the Issuer elects that a Conversion Shares Offer be made). The value of any Ordinary Shares and/or cash received upon Conversion may have a market value significantly below the principal amount of the Securities held by a Securityholder. If the Issuer elects, in its sole discretion, to conduct a Conversion Shares Offer, receipt of any Ordinary Shares and/or cash may be delayed, during which time the value of such Ordinary Shares and/or cash may have further decreased.

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

Further, the Conditions provide that a Securityholder, and not the Issuer, shall be responsible for paying any taxes and capital, stamp, issue, registration and transfer taxes and duties arising to such Securityholder on Conversion as a consequence of any disposal or deemed disposal of their Securities (or any interest therein) and/or the issue or delivery to them of any Ordinary Shares (or any interest therein) upon Conversion.

In addition to Conversion of the Securities in accordance with Condition 8, the Securities may also be written off, written down, converted to Ordinary Shares 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 *"The Securities may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant UK regulatory authority of the bail-in or capital instruments write-down and conversion powers, which powers are in addition to the terms of the Securities which provide for Conversion on the occurrence of a"*

Trigger Event.” and “Other powers contained in the Special Resolution Regime under the Banking Act may affect Securityholders’ rights under, and the value of their investment in, the Securities” below.

Securityholders may lose all or some of the value of their investment as a result of a Conversion. The market price of the Securities is expected to be affected by fluctuations in the Issuer Group’s Common Equity Tier 1 Capital Ratio. Any reduction in the Issuer Group’s Common Equity Tier 1 Capital Ratio may have an adverse effect on the market price of the Securities, and such adverse effect may be particularly significant if there is any indication or expectation that the Issuer Group’s Common Equity Tier 1 Capital Ratio is or may be trending towards 7.00 per cent.

The Issuer publicly reports (as at the period end) the Issuer Group’s Common Equity Tier 1 Capital Ratio, calculated on a consolidated basis. However, there can be no assurance that the Issuer will continue publicly to report the Issuer Group’s Common Equity Tier 1 Capital Ratio on a half-yearly, rather than yearly, basis. In addition, during each such half-yearly or yearly period, as the case may be, there will be no published updating of the Issuer Group’s Common Equity Tier 1 Capital Ratio and there may be no prior warning of adverse changes in the Issuer Group’s Common Equity Tier 1 Capital Ratio. However, any indication that the Issuer Group’s Common Equity Tier 1 Capital Ratio is moving towards the level of the Trigger Event may have an adverse effect on the market price of the Securities. A decline or perceived decline in the Issuer Group’s Common Equity Tier 1 Capital Ratio may significantly affect the trading price of the Securities. A Trigger Event could occur at any time, even though the Issuer currently publicly reports the Issuer Group’s Common Equity Tier 1 Capital Ratio only as of each half-yearly period end.

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

The occurrence of a Trigger Event, and therefore Conversion, is inherently unpredictable and depends on a number of factors, some of which may be outside the control of the Issuer. A Trigger Event could occur at any time. The PRA, as part of its supervisory activity, may instruct the Issuer to calculate the Issuer Group’s Common Equity Tier 1 Capital Ratio as of any date, including if the Issuer is subject to recovery and resolution actions by the relevant United Kingdom resolution authority, or the Issuer might otherwise determine to calculate such ratio in its own discretion. As such, Conversion could occur at any time. Moreover, it is likely that the relevant United Kingdom resolution authority would allow a Trigger Event to occur rather than to resort to the use of public funds.

A Trigger Event will occur at any time if the Issuer Group’s Common Equity Tier 1 Capital Ratio is below 7.00 per cent. as of any calculation date. The calculation of such ratio could be affected by one or more factors, including, among other things, changes in the mix of the Issuer 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, in each case on either an individual consolidated basis or a consolidated basis), actions that the Issuer is required to take at the direction of the PRA or the relevant UK resolution authority, and the Issuer Group’s ability to manage Risk Weighted Assets in both its on-going businesses and those which it may seek to exit. In addition, the Issuer Group has capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, the Issuer Group’s Common Equity Tier 1 Capital Ratio is exposed to foreign currency movements.

The calculation of the Issuer 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 of the relevant calculation date, the PRA could require the Issuer to reflect such changes in any particular calculation of the Issuer Group’s Common Equity Tier 1 Capital Ratio.

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

Because of the inherent uncertainty regarding whether a Trigger Event will occur and there being no affirmative obligation on the Issuer’s part to prevent its occurrence, it will be difficult to predict when, if at all, a Trigger Event and subsequent Conversion may occur. Accordingly, the trading behaviour of the Securities is not necessarily expected to follow the trading behaviour of other types of securities. Any indication that a Trigger Event and subsequent Conversion may occur can be expected to have a material adverse effect on the market price of the Securities.

The Common Equity Tier 1 Capital Ratio of the Issuer Group will be affected by the Issuer Group's business decisions and, in making such decisions, the Issuer Group's interests may not be aligned with those of the holders of the Securities.

As discussed in *"The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Issuer Group"* above, the Issuer Group's Common Equity Tier 1 Capital Ratio could be affected by a number of factors. The Issuer Group's Common Equity Tier 1 Capital Ratio will also depend on the Issuer Group's decisions relating to its businesses and operations, as well as the management of its capital position. The Issuer Group will have no obligation to consider the interests of the holders of the Securities in connection with its strategic decisions, including in respect of its capital management. Holders of the Securities will not have any claim against the Issuer or any other member of the Issuer Group relating to decisions that affect the business and operations of the Issuer Group, including the Issuer Group's capital position, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause holders of the Securities to lose all or part of the value of their investment in the Securities.

Securityholders will have limited rights after Conversion and the issuance of Ordinary Shares to the Settlement Share Depository (or to the relevant recipient in accordance with terms of the Securities) will constitute an irrevocable release of all of the Issuer's obligations in respect of the Securities. The Issuer will have absolute discretion in determining whether and how a Conversion Shares Offer will be conducted and as to the matters which will be considered when making such determination.

Following Conversion, the Issuer will be obliged to issue and deliver the Ordinary Shares to the Settlement Share Depository, which will hold the Ordinary Shares on behalf of the Securityholders. Once the Ordinary Shares have been delivered to the Settlement Share Depository, all of the Issuer's obligations under the Securities will be irrevocably released in consideration of such issuance to the Settlement Share Depository, and under no circumstances will such released obligations be reinstated and Securityholders will not be entitled to any form of compensation in the event of the Issuer's potential recovery or change in the Issuer Group's Common Equity Tier 1 Ratio after the Conversion Date. With effect from the Conversion Date, Securityholders will have recourse only to the Settlement Share Depository for the delivery to them of Ordinary Shares or if the Issuer elects that a Conversion Shares Offer be made, of any Alternative Consideration to which they are entitled.

Securityholders will not have any rights against the Issuer with respect to repayment of the principal amount of the Securities or payment of interest or any other amount on, or in respect of, the Securities, in each case that is not due and payable, which liabilities will be released. Accordingly, the principal amount of the Securities will equal zero at all times from and after the Conversion Date and any interest will be cancelled or deemed to have been cancelled at all times thereafter and will not be due and payable, including any interest in respect of an interest period ending on any Interest Payment Date falling between the date of a Trigger Event and the Conversion Date.

In addition, the Issuer has not yet appointed a Settlement Share Depository and it may not be able to appoint a Settlement Share Depository if Conversion occurs. In such case, the Issuer will effect, by means it deems reasonable under the circumstances (including, without limitation, issuance of the Ordinary Shares to another nominee or to Securityholders directly), the issuance and/or delivery of the Ordinary Shares or, if the Issuer elects that a Conversion Shares Offer be made, Alternative Consideration, as applicable. Such arrangements may be disadvantageous to, and more restrictive on, Securityholders, such as involving a longer period of time before Securityholders receive their Ordinary Shares or Alternative Consideration, as applicable, than would be the case under the arrangements expected to be entered into with a Settlement Share Depository. Nevertheless, such issuance also will irrevocably and automatically release all of the Issuer's obligations under the Securities as if the Ordinary Shares had been issued to the Settlement Share Depository.

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 appropriate and practicable. The Issuer currently expects that in determining whether or not a Conversion Shares Offer will be conducted and, if one is to be conducted, how and to whom such Conversion Shares Offer will be made, the Issuer's board of directors would, in accordance with their duties, have regard to a variety of matters, including without limitation, the interests of the Issuer's existing shareholders, taken as a whole, and the potential impact of a Conversion Shares Offer on the Issuer's financial stability. Further, 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, will preclude the Issuer from undertaking a rights issue or other equity issuance at any time on such terms as the Issuer deems appropriate, at its sole discretion, including —for the avoidance of doubt— the offer of the Issuer's ordinary shares at or below the Conversion Shares Offer Price.

Securityholders may receive Alternative Consideration instead of Ordinary Shares upon a Trigger Event and they will not know the composition of any Alternative Consideration until the end of the Conversion Shares Offer Period.

Securityholders may not ultimately receive Ordinary 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 Settlement Share Depository.

If all of the Ordinary Shares are sold in the Conversion Shares Offer, Securityholders shall be entitled to receive, in respect of each Security, the pro rata share of the cash proceeds from the sale of the Ordinary Shares attributable to such Security (less an amount equal to the pro rata share of any taxes and duties (including, without limitation, any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) that may arise or be paid in connection with the issue and delivery of Ordinary Shares to the Settlement Share Depository pursuant to the Conversion Shares Offer). If some but not all of the Ordinary Shares are sold in the Conversion Shares Offer, Securityholders shall be entitled to receive, in respect of each Security, (a) the pro rata share of the cash proceeds from the sale of the Ordinary Shares attributable to such Security (less an amount equal to the pro rata share of any taxes and duties (including, without limitation, any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) that may arise or be paid in connection with the issue and delivery of Ordinary Shares to the Settlement Share Depository pursuant to the Conversion Shares Offer) together with (b) the pro rata share of the Ordinary Shares not sold pursuant to the Conversion Shares Offer attributable to such Security rounded down to the nearest whole number of Ordinary Shares. If no Ordinary Shares are sold in a Conversion Shares Offer, Securityholders will be entitled to receive, in respect of each Security, the relevant number of Ordinary Shares attributable to such Security rounded down to the nearest whole number of Ordinary Shares.

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

Notice of the results of any Conversion Shares Offer will be provided to Securityholders only at the end of the Conversion Shares Offer Period. Accordingly, Securityholders will not know the composition of the Alternative Consideration to which they may be entitled until the end of the Conversion Shares Offer Period.

Following Conversion, the Securities will remain in existence until the applicable Settlement Date for the sole purpose of evidencing Securityholders' right to receive Ordinary Shares or Alternative Consideration, as applicable, from the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Securities), and the rights of Securityholders will be limited accordingly.

Following Conversion (and thus the issuance of the Ordinary Shares to the Settlement Share Depository or relevant recipient on the Conversion Date), the Securities will remain in existence until the applicable Settlement Date (at which point the Securities will be cancelled) for the sole purpose of evidencing Securityholders' right to receive Ordinary Shares, or the Alternative Consideration, as applicable, from the Settlement Share Depository. If the Issuer has been unable to appoint a Settlement Share Depository, it will effect, by means it deems reasonable under the circumstances (including, without limitation, issuance of the Ordinary Shares to another nominee or to the holders of the Securities directly), the issuance and/or delivery of the Ordinary Shares, or the Alternative Consideration, as applicable, to the Securityholders. See also "*Securityholders will have limited rights after Conversion and the issue of the Ordinary Shares to the Settlement Share Depository will constitute an irrevocable release of all of the Issuer's obligations in respect of the Securities*".

Although the Issuer currently expects that beneficial interests in the Securities will be transferable between the Conversion Date and the Suspension Date and that any trades in the Securities would clear and settle through the clearing systems in such period, there is no guarantee that this will be the case. Even if the Securities are transferable following Conversion, there is no guarantee that an active trading market will exist for the Securities following Conversion. Accordingly, the price received for the sale of any beneficial interest in any Security during this period may not reflect the market price of such Securities or the Ordinary Shares. Furthermore, transfers of beneficial interests in the Securities may be restricted following the Conversion Date. For example, if the clearance and settlement of transactions in the Securities is suspended by the clearing systems at an earlier time than currently expected, it may not be possible to transfer beneficial interests in the Securities in the clearing systems and trading in the Securities may cease. The Securities may also cease to be listed and traded on the Luxembourg Stock Exchange's Euro MTF before or after the Suspension Date.

In addition, the Issuer understands that the clearing systems will suspend all clearance and settlement of transactions in the Securities on the Suspension Date. As a result, Securityholders will not be able to settle the transfer of any Securities through the clearing systems following the Suspension Date, and any sale or other transfer of the Securities that Securityholders may have initiated prior to the Suspension Date that is scheduled to settle after the Suspension Date will be rejected by the clearing systems and will not be settled through the clearing systems.

Moreover, although Securityholders will become a beneficial owner of a pro rata share of Ordinary Shares upon the issuance of such Ordinary Shares to the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Securities) and the Ordinary Shares will be registered in the name of the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Securities), Securityholders will not be able to sell or otherwise transfer any Ordinary Shares until such time as they are delivered to such Securityholder and registered in their name.

Securityholders must submit a Conversion Notice and may need an account with a clearing system in order to receive delivery of the Ordinary Shares or the Alternative Consideration, as applicable, and will be required to provide further documentation if such Conversion Notice is delivered after the Notice Cut-off Date.

In order to obtain delivery of the relevant Ordinary Shares, or any Alternative Consideration, as applicable, Securityholders (or their nominee, custodian or other representative) must deliver a Conversion Notice (and the relevant Securities, if held in definitive form) to the Settlement Share Depository. The Conversion Notice must contain certain information, including information relating to the Securityholder, the Securities, CREST or other clearing system account details (assuming the Ordinary Shares are a participating security in a clearing system) and any such other details as may be required by the Settlement Share Depository. Accordingly, in such cases, Securityholders (or their nominee, custodian or other representative) must have an account with the relevant clearing system in order to receive the Ordinary Shares or pro rata Ordinary Shares component, as applicable. Each Conversion Notice shall be irrevocable and the Settlement Share Depository will determine, in its sole and absolute discretion, whether a Conversion Notice has been properly completed and delivered, and such determination will be conclusive and binding on Securityholders. If Securityholders fail to properly complete and deliver a Conversion Notice (and the relevant Securities, if held in definitive form) the Settlement Share Depository will be entitled to treat such Conversion Notice as null and void.

Although the Settlement Share Depository will continue to hold the relevant Ordinary Shares or Alternative Consideration, as applicable, if Securityholders fail to properly complete and deliver a Conversion Notice on or before the Notice Cut-off Date, the relevant Securities will be cancelled on the applicable Settlement Date. Moreover, after the Notice Cut-off Date Securityholders will continue to be required to provide a Settlement Notice, as well as evidence of their entitlement to the relevant Ordinary Shares or, the Alternative Consideration, as applicable. Such evidence must be satisfactory to the Settlement Share Depository in its sole and absolute discretion in order for Securityholders to receive delivery of such Ordinary Shares or Alternative Consideration, as applicable.

The Issuer will have no liability to Securityholders for any loss resulting from their failure to receive any Ordinary Shares or Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of Securityholders (or their custodian, nominee, broker or other representative) failing to duly submit a Conversion Notice (and the relevant Securities, if held in definitive form) on a timely basis or at all.

Securityholders will not be entitled to any rights with respect to the Ordinary Shares prior to receipt of such Ordinary Shares, but will be subject to all changes made with respect to the Ordinary Shares.

The exercise of voting rights and rights related thereto with respect to any Ordinary Shares is only possible after delivery of the Ordinary Shares following the Conversion Date and the registration of the person entitled to the Ordinary Shares in the share register of the Issuer as a shareholder with voting rights in accordance with the provisions of, and subject to the limitations provided in, the articles of association of the Issuer.

The Conversion Price is fixed and subject to adjustment in only very limited circumstances; Securityholders will bear the risk of fluctuation in the value of Ordinary Shares and have limited anti-dilution protection.

The number of Ordinary Shares to be issued and delivered on Conversion in respect of each Security will be the principal amount of the Securities outstanding immediately prior to the Conversion on the Conversion Date divided by the Conversion Price, rounded down to the nearest whole number of Ordinary Shares. The Conversion Price, as defined in the Conditions of the Securities, has been set at £2.96, subject to any adjustment pursuant to Condition 8.3. Because a Trigger Event will occur when the Issuer Group's Common Equity Tier 1 Ratio will have deteriorated, the Trigger Event will likely be accompanied by a prior deterioration in the market price of the Ordinary Shares, which may be expected to continue after the occurrence of the Trigger Event. Therefore, if a Trigger Event were to occur, investors would receive Ordinary Shares at a time when the market price of the Ordinary Shares is diminished. In addition, there may be a delay in Securityholders receiving Ordinary Shares following a Trigger Event, during which time the market price of the Ordinary Shares may further decline. As a result, the realisable value of the Ordinary Shares may be well below the Conversion Price.

The circumstances (described in Condition 8) in which adjustments will be made to the Conversion Price are limited. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares and the adjustment events that are included are less extensive than those often included in the terms of convertible securities.

Furthermore, the Conditions do not provide for certain undertakings from the Issuer which are sometimes included in convertible securities to protect investors in situations where the relevant conversion price adjustment provisions do not operate to compensate for the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to the Ordinary Shares nor an undertaking restricting issues of new capital with preferential rights relative to the Ordinary Shares.

Accordingly, corporate events or actions in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Ordinary Shares and therefore the Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Issuer may need to raise additional capital. Further capital raisings by the Issuer could result in the dilution of the interests of the Securityholders, subject only to the limited anti-dilution protections referred to above.

As a result of the Securities being converted into Ordinary Shares, upon a Trigger Event, Securityholders are particularly exposed to changes in the market price of the Ordinary Shares.

Many investors in convertible or exchangeable securities seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities, often through short selling of the underlying equity securities or through similar transactions. Prospective investors in the Securities may look to sell Ordinary Shares in anticipation of taking a position in, or during the term of, the Securities. This could drive down the price of the Ordinary Shares. Since the Securities will mandatorily convert into a fixed number of Ordinary Shares upon a Trigger Event, the price of the Ordinary Shares may be more volatile if the Issuer is trending towards a Trigger Event.

If a Relevant Event occurs, the Securities may be convertible into shares in an entity other than the Issuer or may be fully written down upon the occurrence of a Trigger Event following a Non-Qualifying Relevant Event.

If a Qualifying Relevant Event occurs, then following Conversion, the Securities shall become convertible into the share capital of the Acquiror (as more fully described in Condition 8.4) at the New Conversion Price. There can be no assurance as to the nature of any such Acquiror, or of the risks associated with becoming an actual or potential shareholder in such Acquiror and accordingly a Qualifying Relevant Event may have an adverse effect on the value of the Securities.

In addition, a Qualifying Relevant Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, the Issuer and the Acquiror must, not later than seven days following the occurrence of a Relevant Event, enter into arrangements to the satisfaction of the Issuer for delivery of the Relevant Shares to the Settlement Shares Depository upon Conversion of the Securities. If the Issuer and the Acquiror are unable to enter into such arrangements within this timeframe, the New Conversion Condition would not be satisfied.

In the case of a Non-Qualifying Relevant Event, the Securities will not be subject to Conversion unless the Conversion Date occurs prior to the occurrence of the Non-Qualifying Relevant Event. If the Conversion Date occurs following the Non-Qualifying Relevant Event, the outstanding principal amount of each Security will be automatically written down to zero and the Securities will be cancelled in their entirety. Securityholders will be deemed to have irrevocably waived their right to receive repayment of the aggregate principal amount of the Securities so written down and all accrued and unpaid interest and any other amounts payable on the Securities will be cancelled, as described under Condition 8.4(d)(iv). There can be no assurance that a Relevant Event will not be a Non-Qualifying Relevant Event, in which case investors may lose their investment in the Securities.

Changes to the calculation of Common Equity Tier 1 capital and/or risk weighted assets may negatively affect the Issuer Group's Common Equity Tier 1 Ratio, thereby increasing the risk of a Trigger Event which will lead to Conversion, as a result of which the Securities will automatically be converted into Ordinary Shares.

In addition, regulatory initiatives may impact the calculation of the Issuer Group's Risk Weighted Assets, being the denominator of the Issuer Group's Common Equity Tier 1 Capital Ratio.

The Basel Committee is currently consulting on revisions to the standardised approach for credit risk, with the main proposed changes being to (i) reduce reliance on external credit ratings for the purposes of assessing the credit profile of a financial institution's assets by replacing such credit ratings with a number of risk drivers which will vary depending on the type of exposure and (ii) require that in calculating risk-based capital ratios, banks use in the denominator of their ratios the higher of risk-weighted assets as calculated under the standardised approach or, for banks that apply advanced approaches, advanced approaches. Although the timing for adoption, contents and impact of these proposals remain subject to considerable uncertainty, the implementation of this new risk assessment framework may impact the

calculation of the Issuer Group's risk weighted assets and, consequently, the Issuer Group's Common Equity Tier 1 Capital Ratio.

In addition, following the outcome of the referendum on the UK's membership of the EU in favour of leaving the EU, there is uncertainty as to how regulatory developments may impact the existing framework relating to capital requirements and the definition thereof.

Any changes that may occur in the application in the United Kingdom of the CRD IV rules or the loss absorbency requirements under the BRRD (as defined below) subsequent to the date of this Information Memorandum and/or any subsequent changes to such rules and other variables may individually and/or in the aggregate negatively affect the Issuer Group's Common Equity Tier 1 Capital Ratio and thus increase the risk of a Trigger Event, which will lead to Conversion, as a result of which Securityholders could lose all or part of the value of their investment in the Securities.

The Securities may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant UK regulatory authority of the bail-in or capital instruments write-down and conversion powers, which powers are in addition to the terms of the Securities which provide for Conversion on the occurrence of a Trigger Event.

The powers to convert, write-down or cancel the Securities given to national regulators pursuant to the rules and regulations described below are in addition to the terms of the Securities which provide for Conversion upon the occurrence of a Trigger Event.

As the parent company of a UK bank, the Issuer is subject to the "Special Resolution Regime" under the UK Banking Act 2009, as amended (the "**Banking Act**"), that gives wide powers in respect of UK banks and their parent and other group companies to HM Treasury, the Bank of England, the PRA and the FCA in circumstances where a UK bank has encountered or is likely to encounter financial difficulties. As a result, the Securities are subject to existing UK bail-in powers under the Banking Act (such as the capital instruments write-down and conversion power and the bail-in tool, each described below), as well as any future UK bail-in powers under existing or future legislative and regulatory proposals, including further measures implementing Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the Bank Recovery and Resolution Directive or "**BRRD**").

The stated aim of the BRRD is to provide a harmonised legal framework governing the tools and powers available to national supervisory authorities to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' contributions to bank bail-outs and/or exposure to losses. On 1 January 2015, the Banking Act and other primary and secondary legislative instruments were amended to give effect to the BRRD in the United Kingdom. In particular, the Banking Act was amended to implement the power to write-down and convert capital instruments (the "**capital instruments write-down and conversion power**") and to amend the existing "**bail-in tool**" introduced under the UK Financial Services (Banking Reform) Act of 2013 (the "**Banking Reform Act 2013**") as further described below, both of which may be exercised by the Bank of England (as a relevant UK resolution authority) and form part of the "**UK bail-in power**".

The capital instruments write-down and conversion power may be exercised independently of, or in combination with, the exercise of a resolution tool (other than the bail-in tool, which would be used instead of the capital instruments write-down and conversion power), and it allows resolution authorities to cancel all or a portion of the principal amount of capital instruments and/or convert such capital instruments (such as the Securities) into common equity tier 1 instruments when an institution is no longer viable. The point of non-viability for such purposes is the point at which the Bank of England or the PRA determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Securities) are written-down or converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution would no longer be viable.

On 18 December 2013, the Banking Reform Act 2013 became law in the United Kingdom. Among the changes introduced by the Banking Reform Act 2013, the Banking Act 2009 was amended to insert a bail-in tool as part of the powers available to the UK resolution authority. The bail-in tool was introduced as an additional power available to the Bank of England, to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that seeks to respect the hierarchy of claims in liquidation. The UK government amended the provisions of the Banking Reform Act 2013 to ensure the consistency of these provisions with the bail-in provisions under the BRRD, which amendments came into effect on 1 January 2015 (subject to certain provisions which came into effect in 2016). Where the conditions for resolution exist, the Bank of England may use the bail-in tool (in combination with other resolution tools under the Banking Act) to, among other things, cancel or reduce all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution and/or convert certain debt claims into another security, including ordinary shares of the surviving entity. In addition, the Bank of England may

use the bail-in tool to, among other things, replace or substitute the issuer as obligor in respect of debt instruments, modify the terms of debt instruments (including altering the maturity (if any) and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinue the listing and admission to trading of financial instruments.

As a result, the Securities are subject to the UK bail-in power and may be subject to a partial or full write-down or conversion to common equity Tier 1 instruments of the Issuer or one of the Group's entities or another institution. Accordingly, and as described above where there exists a threat that a Trigger Event may occur, trading behaviour may also be affected by the threat that the UK resolution authority may exercise the UK bail-in power and, as a result, the Securities are not necessarily expected to follow the trading behaviour associated with other types of securities. Securityholders should consider the risk that they may lose all of their investment, including the principal amount plus any accrued interest if the UK bail-in power is acted upon or that such Securities may be converted into ordinary shares which ordinary shares may be of little value at the time of conversion.

Other powers contained in the Special Resolution Regime under the Banking Act may affect Securityholders' rights under, and the value of their investment in, the Securities.

The "Special Resolution Regime" under the Banking Act also includes powers to (a) transfer all or some of the securities issued by a UK bank or its parent, or all or some of the property, rights and liabilities of a UK bank or its parent (which would include the Securities), to a commercial purchaser or, in the case of securities, into temporary public ownership, or, in the case of property, rights or liabilities, to a bridge bank (an entity owned by the Bank of England); (b) together with another resolution tool only, transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down; (c) override any default provisions, contracts or other agreements, including provisions that would otherwise allow a party to terminate a contract or accelerate the payment of an obligation; (d) commence certain insolvency procedures in relation to a UK bank; and (e) override, vary or impose contractual obligations, for reasonable consideration, between a UK bank or its parent and its group undertakings (including undertakings which have ceased to be members of the group), in order to enable any transferee or successor bank of the UK bank to operate effectively.

The Banking Act also gives power to the UK government to make further amendments to the law for the purpose of enabling it to use the Special Resolution Regime powers effectively, potentially with retrospective effect.

The powers set out in the Banking Act could affect how credit institutions (and their parent companies) and investment firms are managed as well as, in certain circumstances, the rights of creditors. Accordingly, the taking of any actions contemplated by the Banking Act may affect Securityholders' rights under the Securities, and the value of their Securities may be affected by the exercise of any such powers or threat thereof.

The circumstances under which the relevant UK resolution authority would exercise its UK bail-in power are currently uncertain.

There remains uncertainty as to how or when the UK bail-in powers may be exercised and how they would affect the Group and the Securities. The determination that all or part of the principal amount of the Securities will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. Although there are proposed pre-conditions for the exercise of the UK bail-in power, there remains uncertainty regarding the specific factors which the relevant UK resolution authority would consider in deciding whether to exercise the UK bail-in power with respect to the relevant financial institution and/or securities, such as the Securities, issued by that institution. In particular, in determining whether an institution is failing or likely to fail, the Bank of England and the PRA shall consider a number of factors, including, but not limited to, an institution's capital and liquidity position, governance arrangements and any other elements affecting the institution's continuing authorisation. Moreover, as the final criteria that the relevant UK resolution authority would consider in exercising any UK bail-in power is likely to provide it with discretion, Securityholders may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such UK bail-in power. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any UK bail-in power by the Bank of England, as UK resolution authority, may occur which would result in a principal write off or conversion to equity. The uncertainty may adversely affect the value of any investment in the Securities.

In addition, certain provisions of the BRRD remain subject to transposition measures in the United Kingdom and regulatory technical standards and implementing technical standards to be prepared by the European Banking Authority. In addition to the BRRD and the Banking Act, it is possible that the application of other relevant laws, the Basel III Reforms and any amendments thereto or other similar regulatory proposals, including proposals by the FSB on cross-border recognition of resolution actions, could be used in such a way as to result in the Securities absorbing losses in the manner described above. Any actions by the UK resolution authority pursuant to the powers granted to it as a result of the transposition of the BRRD, or other measures or proposals relating to the resolution of financial institutions, may

adversely affect the rights of holders of the Securities, the price or value of an investment in the Securities and/or the Group's ability to satisfy its obligations under the Securities.

The Securities are not 'protected liabilities' for the purposes of any 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 Securities 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.

There is no scheduled redemption date for the Securities and Securityholders have no right to require redemption.

The Securities are undated securities in respect of which there is no fixed redemption or maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securityholders have no right to require the Issuer or any member of the Issuer Group to redeem or purchase any Securities at any time. Any redemption of the Securities and any purchase of any Securities by the Issuer or any of its subsidiaries will be subject always to the prior approval of the Supervisory Authority and to compliance with prevailing prudential requirements, and the Securityholders may not be able to sell their Securities in the secondary market (if at all) at a price equal to or higher than the price at which they purchases their Securities. Accordingly, investors in the Securities should be prepared to hold their Securities for a significant period of time.

The Securities are subject to early redemption upon the occurrence of certain tax and regulatory events.

Subject to the prior approval of the Supervisory Authority and to compliance with prevailing prudential requirements, the Issuer may, at its option, redeem all (but not some only) of the Securities at any time at their principal amount plus interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the redemption date, upon the occurrence of a Tax Event or a Capital Disqualification Event.

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

If the Issuer redeems the Securities in any of the circumstances mentioned above, there is a risk that the Securities may be redeemed at times when the redemption proceeds are less than the current market value of the Securities or when prevailing interest rates may be relatively low, in which latter case Securityholders 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.

The interest rate on the Securities will be reset on each Reset Date, which may affect the market value of the Securities.

The Securities will initially earn interest at a fixed rate of interest to, but excluding, the First Reset Date. From, and including, the First Reset Date, however, and every Reset Date thereafter, the interest rate will be reset to the Reset Interest Rate (as described in Condition 5.4). This reset rate could be less than the Initial Interest Rate and/or the Interest Rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Securities and so the market value of an investment in the Securities.

The Issuer is a holding company.

The Issuer is a holding company and conducts substantially all of its operations through its subsidiaries, and accordingly the claims of the Securityholders under the Securities will be structurally subordinated to the claims of creditors of the Issuer's 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 in the limited circumstance 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's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due or to provide the Issuer with funds to meet any of the Issuer's payment obligations under the Securities.

As well as the risk of losses in the event of a subsidiary's insolvency, the Issuer may suffer losses if any of its loans to, and investments in, a subsidiary (including the Bank) are subject to statutory write down and conversion powers or if the subsidiary is otherwise subject to bank resolution proceedings. The Issuer expects to loan the proceeds of the Securities to the Bank. Such loan is expected to have a legal ranking in the insolvency of the Bank that corresponds to the legal ranking of the Securities in the insolvency of the Issuer. However, the Issuer retains its absolute discretion to restructure such loans or investments at any time and for any purpose including, without limitation, in order to provide different amounts or types of capital or funding to the Bank or its other subsidiaries, or otherwise as part of meeting regulatory requirements, such as the implementation of MREL in respect of the Bank or its other subsidiaries. A restructuring of such loans or investments 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 the Bank. Any restructuring of such loans or investments may be implemented by the Issuer without prior notification to, or consent of, the Securityholders. Such loans or investments may be subject to the statutory write down and conversion powers or the UK bail-in tool (see further "*Regulatory action in the event a bank or investment firm in the Virgin Money Group is failing or is likely to fail could materially adversely affect the value of the Securities*"). Any changes in the legal or regulatory form and/or ranking of the loans or investments could also impact their treatment in resolution.

If one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the Securityholders 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 may include the Bank) and preference shareholders (if any and which may include the Bank) of that subsidiary. Similarly, if the Bank or any other of the Issuer's subsidiaries were subject to resolution proceedings (i) the Securityholders would have no direct recourse against the Bank or such other subsidiary, and (ii) Securityholders themselves may also be exposed to losses pursuant to the exercise by the relevant resolution authority of the stabilisation powers.

The Issuer may be substituted as principal debtor in respect of the Securities.

At any time, the Trustee may (subject to the approval of the Supervisory Authority) agree to the substitution in place of the Issuer as the principal debtor under the Securities of any of its wholly-owned Subsidiaries subject to the Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Securityholders and to certain other conditions set out in the Trust Deed being complied with.

The Securities are complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Securities are complex financial instruments that involve a high degree of risk. As a result, an investment in the Securities and the Ordinary Shares issuable upon Conversion will involve certain increased risks. Each potential investor of the Securities must determine the suitability (either alone or with the help of a financial adviser) of that 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 Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Information Memorandum;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where such potential investor's financial activities are principally denominated in a currency other than pounds sterling, and the possibility that the entire principal amount of the Securities could be lost, including following the exercise by the relevant UK resolution authority of any UK bail-in power;
- (iv) understand thoroughly the terms of the Securities, such as the provisions governing Conversion (including, in particular, calculation of the Issuer Group's Common Equity Tier 1 Capital Ratio, as well as under what circumstances the Trigger Event will occur), and be familiar with the behaviour of any relevant indices and financial markets, including the possibility that the Securities may become subject to write down or conversion if the UK bail-in power is exercised; and
- (v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless they have the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the likelihood of Conversion into Ordinary Shares and the value of the Securities, and the impact this investment will have on the potential investor's overall investment portfolio. 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 this Information Memorandum or incorporated by reference herein.

Because the Securities are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on the clearing system procedures for transfer, payment and communication with the Issuer.

The Securities will, upon issue, be represented by a Global Certificate that will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Securities are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

While the Securities are in global form, the payment obligations of the Issuer under the Securities will be discharged upon such payments being made by or on behalf of the Issuer to or to the order of the nominee for the common depository. A holder of a beneficial interest in a Security must rely on the procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, to receive payments under the Securities. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Meetings of Securityholders and modification.

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

In addition, the Trustee may, subject to the Issuer obtaining Regulatory Approval (as defined in the Conditions) in the case of the Conditions and the Trust Deed, agree (other than in respect of a Reserved Matter, as defined in the Trust Deed), without the consent of the Securityholders, to make any modification to any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement that (i) in the opinion of the Trustee is not materially prejudicial to the interests of the Securityholders, or (ii) (irrespective of whether the same constitutes a Reserved Matter) in its opinion is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Securityholders.

Securityholders may be subject to disclosure obligations and/or may need approval from the Issuer's regulator under certain circumstances.

As the holders of the Securities may receive Ordinary Shares if a Trigger Event occurs, an investment in the Securities may result in holders having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations. 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 or crosses 3 per cent. and every percentage point thereafter.

Furthermore, as Ordinary Shares represent voting securities of a parent undertaking of a number of regulated group entities, under the laws of the United Kingdom, the United States and other jurisdictions, ownership of the Securities (or the Ordinary Shares) above certain levels may require Securityholders to obtain regulatory approval or subject them 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 Securities. Accordingly, each potential investor should consult its legal advisers as to the terms of the Securities, in respect of its existing shareholding and the level of holding it would have if it receives Ordinary Shares following a Trigger Event.

Change of law.

The Terms and Conditions of the Securities will be governed by the laws of England. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or administrative practice after the date of this Information Memorandum.

Legality of purchase.

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Securities by a prospective investor in the Securities, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

Legal investment considerations may restrict certain investments.

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) Securities are legal investments for it, (ii) Securities can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Taxation.

Potential purchasers and sellers of the Securities should be aware that they may be required to pay taxes or documentary charges or duties in accordance with the laws and practices of the country where the Securities are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available in relation to the tax treatment of financial instruments such as the Securities. Potential investors are advised not to rely upon the tax summary contained in this Information Memorandum but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Securities. This investment consideration has to be read in connection with the taxation sections of this Information Memorandum.

Securityholders will be responsible for any taxes following Conversion.

Neither the Issuer nor any member of the Group will be liable for any taxes or duties (including, without limitation, any stamp duty, stamp duty reserve tax or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) arising on conversion or that may arise or be paid in connection with the issue and delivery of Ordinary Shares and Alternative Consideration, if applicable, following Conversion. Securityholders must pay any taxes and duties (including, without limitation, any stamp duty, stamp duty reserve tax or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) arising on conversion in connection with the issue and delivery of Ordinary Shares to the Settlement Share Depository on behalf of Securityholders.

Limitation on gross-up obligation under the Securities

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

A Securityholder's actual yield on the Securities may be reduced from the stated yield by transaction costs.

When Securities are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Securities. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Securityholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), Securityholders must also take into account any follow-up costs (such as custody fees). Prospective investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Securities before investing in the Securities.

RISKS RELATED TO THE MARKET GENERALLY

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

The secondary market generally.

The Securities represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Securities.

If a market for the Securities does develop, the trading price of the Securities may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Securities. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Securities does develop, it may become severely restricted, or may disappear, if the financial condition and/or the Common Equity Tier 1 Capital Ratio of the Issuer Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable, or electing to direct the Issuer not, to pay interest on the Securities in full, or of the Securities being Converted or otherwise subject to loss absorption under the Conditions or an applicable statutory loss absorption regime. In addition, the market price of the Securities may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

- variations in operating results in the Group's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects, such as its transformation programme;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations, PRA or FCA requirements;
- additions or departures of key personnel; and
- future issues or sales of Securities or other securities.

Any or all of these events could result in material fluctuations in the price of Securities which could lead to investors losing some or all of their investment.

The issue price of the Securities might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Securities at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Issuer and any subsidiary of the Issuer can (subject to regulatory approval and compliance with prevailing prudential requirements) purchase Securities at any time, they have no obligation to do so. Purchases made by the Issuer or any member of the Group could affect the liquidity of the secondary market of the Securities and thus the price and the conditions under which investors can negotiate these Securities on the secondary market.

In addition, Securityholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Information Memorandum), whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Securities in secondary resales even if there is no decline in the performance of the Securities or the assets of the Issuer. The Issuer cannot predict whether these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Securities and instruments similar to the Securities at that time.

Although applications have been made for the Securities to be listed and admitted to trading on the Luxembourg Stock Exchange's Euro MTF market, there is no assurance that such application will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls.

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

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

Interest rate risks.

An investment in the Securities, which bear interest at a fixed rate (reset every five years), involves the risk that subsequent changes in market interest rates may adversely affect their value. The rate of interest will be set every five years, and as such reset rates are not pre-defined at the date of issue of the Securities; they may be different from the initial rate of interest and may adversely affect the yield of the Securities.

TERMS AND CONDITIONS OF THE SECURITIES

The following is the text of the terms and conditions that, subject to completion and amendment, shall be applicable to the Securities in definitive form (if any) issued in exchange for the Global Security.

The £230,000,000 Fixed Rate Resettable Additional Tier 1 Securities (the **Securities**, which expression shall in these Conditions, unless the context otherwise requires, include any further Securities issued pursuant to Condition 17 which are consolidated and form a single series with the Securities) of Virgin Money Holdings (UK) plc (the **Issuer**) are constituted by a trust deed dated 10 November 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 Securityholders.

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 10 November 2016 (as amended and/or restated and/or supplemented from time to time, the **Agency Agreement**) made between the Issuer, the Registrar and other Agents and the Trustee are available for inspection during normal business hours by the Securityholders at the registered office for the time being of the Trustee, being at the date of issue of the Securities at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom. The Securityholders 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 the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Securities are in registered form and are available and transferable in minimum principal amounts of £200,000 and integral multiples of £1,000 in excess thereof. A security certificate (**Certificate**) will be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar.

1.2 Title

Title to the Securities passes only by registration in the register of Securityholders (the **Register**). The holder of any Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Securityholder** and (in relation to a Security) **holder** means the person in whose name a Security is registered in the Register (or, in the case of a joint holding, the first named thereof).

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject as provided in Condition 2.4, a Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar together with such evidence as the Registrar may reasonably require to prove title to the Securities that are the subject of the transfer and the authority of the individuals who have executed the form of transfer. Legal title to the Securities will pass upon registration of such transfer in the Register.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Registrar of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Security to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in London.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the principal amount of Securities not so transferred will, within 10 business days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the

Securities not so transferred to the address of such holder appearing on the Register (or, in the case of a joint holding, the first named thereof).

2.3 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer or the Registrar but upon payment (or the giving of such indemnity as the Issuer or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed on the Issuer or the Registrar (as the case may be) in relation to such transfer.

2.4 Closed periods

No Securityholder may require the transfer of a Security to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Security.

2.5 Regulations

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfers of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Securityholder who requests one.

3. STATUS AND SUBORDINATION

3.1 Status of the Securities

The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu*, without any preference among themselves.

On 31 July 2014, the Issuer issued £160,000,000 Fixed Rate Resettable Additional Tier 1 Securities (the **2014 AT1 Securities**). For as long as any 2014 AT1 Securities are outstanding, such securities shall rank *pari passu* with the Securities.

3.2 Solvency Condition

Subject to Condition 4, payments in respect of or arising from (including any damages awarded for breach of any obligation under) the Securities are, in addition to the right or obligation of the Issuer to cancel payments under Condition 5.1. Condition 5.9 and Condition 8.1(a), 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 Securities 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 report as to the solvency of the Issuer by two Authorised Signatories shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Securityholders as correct and sufficient evidence thereof.

3.3 No set-off

Subject to applicable law, no Securityholder 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 Securities and each Securityholder will, by virtue of their holding of any Security, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Securityholder by the Issuer in respect of, or arising under or in connection with the Securities is discharged by set-off, such Securityholder 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.

4. WINDING-UP

4.1 Winding-Up prior to a Trigger Event

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 Security (in lieu of any other payment by the Issuer, but subject as provided in this Condition 4.1), such amount, if any, as would have been payable to the Securityholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Securityholder 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 the holders of Parity Tier 1 Instruments and the holders of 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, the holders of all other classes of issued shares for the time being in the capital of the Issuer (including, for the avoidance of doubt, any ordinary share capital of the Issuer), but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Securityholder 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 Security and any accrued but unpaid interest thereon and any damages awarded for breach of any obligations.

4.2 Winding-Up on or after the occurrence of a Trigger Event

In the event of a Winding-Up concurrently with or after the occurrence of a Trigger Event, and where Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer, but subject as provided in this Condition 4.2), such amount, if any, as would have been payable to the Securityholder if, on the day prior to the commencement of the Winding-Up and thereafter, such Securityholder were the holder of such number of Ordinary Shares as that Securityholder would have been entitled to receive in accordance with Condition 8.1(b).

5. INTEREST

5.1 Cancellation of interest

The Issuer will cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date to the extent that such Interest Amount, 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 paid or made on Tier 2 Capital 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.

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

Further, the Issuer may elect at its full discretion to cancel (in whole or in part) the Interest Amount otherwise scheduled to be paid on an Interest Payment Date. Notice of any cancellation of payment of a scheduled Interest Amount must be given to Securityholders (in accordance with Condition 13), the Trustee, the Agents and (if and for so long as the Securities are listed on the Luxembourg Stock Exchange) to the Luxembourg Stock Exchange as soon as possible prior to the relevant Interest Payment Date (provided that any failure to give such notice shall not affect the cancellation of any Interest Amount in whole or in part by the Issuer and shall not constitute a default for any purpose).

The cancellation of any Interest Amount in accordance with Condition 3.2, Condition 5.9, Condition 8.1(a) or this Condition 5.1 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 the Securityholders shall have no right to any cancelled Interest Amount, whether under the Securities or the Trust Deed, on a Winding-Up or otherwise.

5.2 Interest Rate and Interest Payment Dates

Subject to Conditions 3.2, 5.1, 5.9 and 8.1(a), the Securities bear interest on their outstanding principal amount:

- (a) from and including the Issue Date to but excluding 10 November 2021 (the **First Reset Date**), at the rate of 8.750 per cent. per annum (the **Initial Interest Rate**); and

(b) thereafter, at the relevant Reset Interest Rate,

in each case, payable in two equal instalments semi-annually in arrear on 10 May and 10 November of each year, commencing on 10 May 2017 (each an **Interest Payment Date**). The period beginning on (and including) the Issue Date and ending on (but excluding) the next succeeding 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**.

5.3 Calculation of interest

When interest is required to be calculated in respect of any period, the relevant day-count fraction (the **Day-Count Fraction**) shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by two.

Interest in respect of any Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Conditions 3.2, 5.1, 5.9 and 8.1(a)) in respect of a Security for a relevant 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 Security and the denominator of which is the Calculation Amount.

Subject to Conditions 3.2, 5.1, 5.9 and 8.1(a), the Interest Amount payable for each Interest Period commencing prior to the First Reset Date will (if paid in full) amount to £43.75 per Calculation Amount.

5.4 Reset Interest Rate

(a) 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, as determined by the Agent Bank at approximately 11.00 a.m. (London time) on the Reset Determination Date.

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

(i) **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 of 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;

(ii) **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 with an acknowledged dealer of good credit in the swap market; and

(C) has a floating leg based on 6-month LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

(iii) **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;

(iv) **Margin** means 7.930 per cent. per annum;

- (v) **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;
- (vi) **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 12:00 p.m. (London time) on such Reset Determination Date. 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;
- (vii) **Reset Reference Banks** means six leading swap dealers in the interbank market selected by the Agent Bank (excluding the Agent Bank or any of its affiliates) on the directions of the Issuer; and
- (viii) **Screen Page** means Reuters page “ICESWAP4” 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.

5.5 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 or other relevant authority on which the Securities are at the relevant time listed (by no later than the relevant Reset Determination Date) and to be notified to Securityholders in accordance with Condition 13 as soon as possible after their determination, but in no event later than the relevant Reset Date. 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.

5.6 Determination by the Trustee

The Trustee (or an agent appointed by the Trustee at the expense of the Issuer) shall be entitled but shall not be obliged, if the Agent Bank defaults at any time in its obligation to determine the Reset Interest Rate in accordance with the above provisions, to determine the Reset Interest Rate, at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the determination shall be deemed to be a determination by the Agent Bank.

5.7 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 5, whether by the Reset Reference Banks (or any of them) or the Agent Bank or the Trustee, will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agent Bank and all Securityholders and (in the case of the Trustee, in the absence of negligence, wilful default or fraud, and, in the case of the Issuer, the Agent Bank and all Securityholders, in the absence of gross negligence, wilful default or bad faith) no liability to the Issuer or the Securityholders shall attach to the Reset Reference Banks (or any of them), the Agent Bank or, if applicable, the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

5.8 Agent Bank

The Issuer shall procure that, from the First Reset Date and for so long as any of the Securities remains outstanding, there is at all times an Agent Bank for the purposes of the Securities and the Issuer may, subject to the prior written approval of the Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Reset Interest Rate for any Reset Period, the Issuer shall, subject to the prior written approval of

the Trustee, appoint the London office of another leading investment, merchant or commercial bank or financial institution engaged in the London interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

5.9 Interest accrual

Each Security will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue as provided in the Trust Deed.

Any interest in respect of an Interest Payment Date which falls on or after the date of the Trigger Event shall be deemed to have been cancelled upon the occurrence of such Trigger Event and shall not become due and payable.

6. PAYMENTS

6.1 Payments in respect of Securities

Payments of principal and interest in respect of each Security will be by transfer to the registered account of the Securityholder or by sterling cheque drawn on a bank that processes payments in sterling mailed to the registered address of the Securityholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender (in the case of payments of principal) or presentation (in respect of payments of interest) of the relevant Certificate at the specified office of any Agent. Interest on Securities due on an Interest Payment Date will be paid to the holder shown on the register of Securityholders at the close of business on the date (the **record date**) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition 6.1, a Securityholder's **registered account** means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the register of Securityholders at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of interest, on the relevant record date, and a Securityholder's registered address means its address appearing on the register of Securityholders at that time.

6.2 Payments subject to applicable laws

Payments in respect of principal and interest on the Securities are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

6.3 No commissions

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition 6.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of the Registrar.

Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Securityholder is late in surrendering or presenting its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

6.5 Partial Payments

If the amount of principal or interest which is due on the Securities is not paid in full, the Issuer shall procure that the Registrar will annotate the register of Securityholders with a record of the amount of principal or interest in fact paid.

6.6 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:

- (a) there will at all times be a Paying Agent having a specified office in a European city; and
- (b) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices given to the Securityholders promptly by the Issuer in accordance with Condition 13.

7. REDEMPTION AND PURCHASE

7.1 No fixed redemption date

The Securities 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 7.

7.2 Redemption at the option of the Issuer

The Issuer may, in its sole discretion but subject to Condition 7.6, having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 13, the Trustee and the Agents (which notice shall, subject to Condition 7.6, be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities on the First Reset Date or on any Interest Payment Date thereafter at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the date of redemption.

7.3 Redemption for regulatory reasons

If at any time a Capital Disqualification Event has occurred, the Issuer may, in its sole discretion but subject to Condition 7.6, having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 13, the Trustee and the Agents (which notice shall, subject to Condition 7.6, be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities at their principal amount together with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the date of redemption.

A **Capital Disqualification Event** shall occur if, as a result of any change (or pending change which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the Securities under the Regulatory Capital Requirements that occurs on or after the Issue Date and (where such redemption occurs prior to the fifth anniversary of the Issue Date) that the Issuer demonstrates to the satisfaction of the Supervisory Authority was not reasonably foreseeable as at the Issue Date, the whole or any part of the Securities are (or would be) excluded from the Issuer Group's Tier 1 Capital.

Prior to the publication of any notice of redemption pursuant to this Condition 7.3, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Securities pursuant to this Condition 7.3 have been met and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

7.4 Redemption for tax reasons

If at any time a Tax Event has occurred, the Issuer may, in its sole discretion but subject to Condition 7.6, having given not less than 30 nor more than 60 days' notice to Securityholders in accordance with Condition 13, the Trustee and the Agents (which notice shall, subject to Condition 7.6, be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities at their principal amount together

with interest accrued and unpaid from and including the immediately preceding Interest Payment Date up to but excluding the date of redemption.

A **Tax Event** shall occur if, as a result of any change or amendment to the laws or regulations of the United Kingdom or any authority or political subdivision therein or thereof having power to tax, including any treaty to which such jurisdiction is a party, or any change in the official application of those laws or regulations (including a holding by a court or tribunal of competent jurisdiction) having effect after the Issue Date, such change being material and which (where such redemption occurs prior to the fifth anniversary of the Issue Date) the Issuer demonstrates to the satisfaction of the Supervisory Authority was not reasonably foreseeable as at the Issue Date:

- (a) the Issuer has paid, or would on the next Interest Payment Date be required to pay, Additional Amounts in respect of the Securities;
- (b) the Issuer is not or would not be entitled to claim a deduction in computing its taxable profits and losses in respect of interest payable on the Securities, or such a deduction is or would be reduced or deferred;
- (c) the Issuer is not or would not be able to treat the Securities as loan relationships for the purposes of Part 5 of the Corporation Tax Act 2009;
- (d) the Issuer treats or would be required to treat the Securities or any part thereof as a derivative or an embedded derivative for tax purposes, or the Issuer otherwise is or would be required to take changes in or re-estimates of the value of the Securities or any part of the Securities, or of the present value of the cashflows arising in respect of the Securities or any part of the Securities, into account in computing its taxable profits and losses;
- (e) 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 Securities, the conversion of the Securities into Ordinary Shares or both; or
- (f) the Securities are not or would not be treated as “normal commercial loans” for the purposes of Chapter 6 of Part 5 of the Corporation Tax Act 2010, or the Securities otherwise are or would be required to be taken into account for the purposes of determining any group for tax purposes, such that there is or would be a change in the membership of any group for tax purposes.

Prior to the publication of any notice of redemption pursuant to this Condition 7.4, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Securities pursuant to this Condition 7.4 have been met and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

7.5 Purchases

The Issuer or any of its Subsidiaries may, at its option but subject to Regulatory Approval, purchase or otherwise acquire any of the outstanding Securities at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements.

7.6 Conditions to redemption

Any redemption under Conditions 7.2, 7.3 or 7.4 is subject to obtaining Regulatory Approval and compliance with the Regulatory Preconditions. In addition, if the Issuer has elected to redeem the Securities and:

- (a) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption; or
- (b) 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 the Issuer shall give notice thereof to the Securityholders (in accordance with Condition 13), the Trustee and the Agents as soon as practicable.

The Trustee shall not be under any duty to investigate whether any condition precedent to redemption under this Condition 7 has occurred and shall not be responsible to Securityholders for any loss arising from any failure by it to do so. The Trustee shall rely without further investigation and without liability as aforesaid on any certificate delivered to it in connection with this Condition 7.

7.7 Cancellations

All Securities which are redeemed by the Issuer pursuant to this Condition 7 will be cancelled. All Securities 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.

7.8 Notices final

Upon the expiry of any notice as is referred to in Condition 7.2, 7.3 or 7.4, the Issuer shall be bound (subject only to Condition 7.6) to redeem the Securities to which the notice refers in accordance with the terms of such paragraph.

8. CONVERSION

8.1 Conversion on a Trigger Event

- (a) If the Trigger Event occurs, each Security shall, subject to and as provided in this Condition 8.1, be irrevocably discharged and satisfied by its Conversion into Ordinary Shares, credited as fully paid, in the manner and in the circumstances described below. Such Conversion shall occur without delay and, in any event, by no later than one month (or such shorter period as the Supervisory Authority may require) from the occurrence of the Trigger Event. In addition, the Issuer shall cancel any interest which is accrued and unpaid up to (and including) the Conversion Date (whether or not such interest has become due for payment).
- (b) Following the occurrence of the Trigger Event, the Issuer shall give notice (which notice shall be irrevocable) thereof to the Securityholders (the **Conversion Trigger Notice**) in accordance with Condition 13 and to the Trustee and the Principal Paying Agent without delay after the Trigger Event (and, in any event within such period as the Supervisory Authority may require). The Conversion Trigger Notice shall specify (i) that the Trigger Event has occurred and the Common Equity Tier 1 Capital Ratio resulting in such Trigger Event, (ii) the Conversion Date, (iii) the then prevailing Conversion Price (which Conversion Price shall remain subject to any subsequent adjustment pursuant to Condition 8.3 up to the Conversion Date), (iv) the contact details of the Settlement Shares Depository (or, if the Issuer has been unable to appoint a Settlement Shares Depository, such other arrangements for the issuance and/or delivery of the Ordinary Shares or any Alternative Consideration as the Issuer shall consider reasonable in the circumstances), the Notice Cut-Off Date and the Long-Stop Date, (v) 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, if it so elects, issue a Conversion Shares Offer Election Notice in accordance with Condition 13 within ten London business days following the Conversion Date notifying Securityholders of its decision as to such election and (vi) that the Securities shall remain in existence until the applicable Settlement Date (or, if earlier, the Long-Stop Date), with a principal amount of zero, for the sole purpose of evidencing the Securityholder's right to receive Ordinary Shares or Alternative Consideration, as applicable, from the Settlement Shares Depository.

If the Trigger Event occurs, the Securities will be converted in whole and not in part on the Conversion Date as provided below, at which point all of the Issuer's obligations under the Securities shall be automatically and irrevocably discharged and satisfied by the Issuer's issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depository on the Conversion Date.

- (c) The Issuer shall issue and deliver to the Settlement Shares Depository on the Conversion Date a number of Ordinary Shares in respect of each Security determined by dividing the principal amount of such Security by the Conversion Price prevailing on the Conversion Date, rounded down (if necessary) to the nearest whole number of Ordinary Shares.

Once a Security has been converted into Ordinary Shares, there is no provision for the reconversion of such Ordinary Shares back into Securities.

If the Issuer has been unable to appoint a Settlement Shares Depository, it shall make such other arrangements for the issuance and delivery of the Ordinary Shares to be issued and delivered upon

Conversion (or of the Alternative Consideration, as applicable) to the Securityholders as it shall consider reasonable in the circumstances, which may include issuing and delivering the Ordinary Shares to another independent nominee or to the Securityholders directly, which issuance and delivery of the Ordinary Shares or any Alternative Consideration, as applicable, shall irrevocably and automatically release all of the Issuer's obligations under the Securities as if the relevant Ordinary Shares had been issued and delivered to the Settlement Shares Depository and, in which case, where the context so admits, references in these Conditions to the issue and delivery of Ordinary Shares to the Settlement Shares Depository shall be construed accordingly and apply *mutatis mutandis*.

With effect from and on the Conversion Date no Securityholder will have any rights against the Issuer with respect to the repayment of the principal amount of the Securities or the payment of interest or any other amount on or in respect of such Securities and the principal amount of the Securities shall equal zero at all times thereafter. If the Issuer fails to issue Ordinary Shares on the Conversion Date, or there is any delay in the issue or delivery of such Ordinary Shares to the Settlement Shares Depository or any Securityholder, the only right of the Trustee or (in the circumstances described in Condition 11(d)) the Securityholders in respect of such failure or delay will be to claim against the Issuer to have such Ordinary Shares so issued and to participate in the liquidation proceeds of the Issuer as if the Ordinary Shares had been issued.

- (d) Upon the occurrence of a Trigger Event, the Issuer shall immediately inform the Supervisory Authority and shall, prior to giving the Conversion Trigger Notice, 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 accept such certificate without any further enquiry as sufficient evidence of such matters, in which event such certificate will be conclusive and binding on the Trustee and the Securityholders.
- (e) The Ordinary Shares to be issued and delivered on Conversion shall (except where the Issuer has been unable to appoint a Settlement Shares Depository as contemplated in Condition 8.1(b) and 8.1(c)) initially be registered in the name of the Settlement Shares Depository, which (subject to the provisions of Condition 8.2(c)) shall hold such Ordinary Shares on behalf of the Securityholders. By virtue of its holding of any Security, each Securityholder shall be deemed to have irrevocably directed the Issuer to issue and deliver such Ordinary Shares to the Settlement Shares Depository.

Provided that the Issuer so issues and delivers the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depository, with effect on and from the Conversion Date, Securityholders shall have recourse only to the Settlement Shares Depository for the delivery to them of such Ordinary Shares or, subject to and as provided in Condition 8.2(c), the Alternative Consideration on the applicable Settlement Date. Subject to the occurrence of a Winding-Up on or following the Trigger Event, if the Issuer fails to issue and deliver the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depository on the Conversion Date, a Securityholder's only right under the Securities against the Issuer for any such failure will be to claim to have such Ordinary Shares so issued and delivered.

Following the issuance and delivery of the Ordinary Shares to be delivered on Conversion to the Settlement Shares Depository on the Conversion Date, the Securities shall remain in existence with a principal amount of zero until the applicable Settlement Date (or, if earlier, the Long-Stop Date) for the purpose only of evidencing the Securityholders' right as aforesaid to receive such Ordinary Shares or the Alternative Consideration, as the case may be, to be delivered by the Settlement Shares Depository.

- (f) Subject to and as provided in Condition 8.2(c), the Settlement Shares Depository shall hold the Ordinary Shares to be issued and delivered on Conversion on behalf of the Securityholders who shall, for so long as such Ordinary Shares are held by the Settlement Shares Depository, be entitled to direct the Settlement Shares Depository to exercise on their behalf all rights of an ordinary shareholder (including voting rights and rights to receive dividends) except that Securityholders shall not be able to sell or otherwise transfer such Ordinary Shares unless and until such time as they have been delivered to Securityholders in accordance with Condition 8.2.
- (g) Fractions of Ordinary Shares will not be delivered to the Settlement Shares Depository or to Securityholders upon a Conversion and no cash payment will be made in lieu thereof. However, if one or more Conversion Notices and relevant Certificates are delivered to the Settlement Shares Depository such that any Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, as applicable) to be issued and delivered to a Securityholder on Conversion are to be registered in the same name, the number of Ordinary Shares to be issued and delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Securities to be converted.

8.2 Consequences of a Conversion and procedures for delivery

- (a) Upon Conversion, the principal amount of the Securities will be written down in full. Securityholders shall be deemed to have waived all rights and claims in respect of the principal amount by which the Securities are written down and shall be deemed irrevocably to have directed and authorised the Issuer to apply such amount on their behalf in paying up the relevant fully-paid Ordinary Shares to be issued and delivered to the Settlement Shares Depository on Conversion of their Securities.
- (b) In order to obtain delivery from the Settlement Shares Depository of Ordinary Shares or, as applicable, the relevant Alternative Consideration following a Conversion, Securityholders will be required to deliver a Conversion Notice and the relevant Certificate representing the relevant Security to the Settlement Shares Depository (or an agent designated for the purpose in the Conversion Trigger Notice) on or before the Notice Cut-off Date in accordance with this Condition 8.2. If Securityholders fail to make such delivery on or before the Notice Cut-off Date, or the relevant Conversion Notice shall have been determined by the Settlement Shares Depository to be null and void, then, subject to Condition 8.2(e), the Settlement Shares Depository shall continue to hold the relevant Ordinary Shares or the relevant Alternative Consideration, as the case may be, until a valid Conversion Notice (and the Certificate representing the relevant Securities) is so delivered.
- (c) Not later than the tenth London business day following the Conversion Date, the Issuer may, in its sole and absolute discretion, elect by giving notice to the Securityholders in accordance with Condition 13 and to the Trustee and Agents (a **Conversion Shares Offer Election Notice**) that the Settlement Shares Depository (or an agent on its behalf) will make an offer, in the Issuer's sole and absolute discretion, of all or some of the Ordinary Shares that were delivered on Conversion to, in the Issuer's sole and absolute discretion, all or some of the Issuer's Shareholders at such time, such offer to be at a cash price per Ordinary Share being no less than the Conversion Price, all in accordance with the following provisions (the **Conversion Shares Offer**).

If so elected, a Conversion Shares Offer Election Notice shall specify: (i) the period of time for which the Conversion Shares Offer will be open (the **Conversion Shares Offer Period**); (ii) the new Notice Cut-off Date; and (iii) the new Long-Stop Date. The Conversion Shares Offer Period shall end no later than 40 London business days after the delivery of the Conversion Shares Offer Election Notice by the Issuer.

Upon expiry of the Conversion Shares Offer Period, the Settlement Shares Depository will provide notice to the Securityholders in accordance with Condition 13 and to the Trustee and the Principal Paying Agent of the composition of the Alternative Consideration (and of the deductions to the cash component, if any, of the Alternative Consideration (as set out in the definition of Alternative Consideration)) per Calculation Amount. The Alternative Consideration shall be held by the Settlement Shares Depository on behalf of the Securityholders. The cash component of any Alternative Consideration shall be payable by the Settlement Shares Depository to the Securityholders in Sterling and whether or not the conditions referred to in Condition 3 are satisfied.

The Issuer reserves the right, in its sole and absolute discretion, to elect that the Settlement Shares Depository terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period. If the Issuer makes such election, it will provide at least three London business days' notice to the Securityholders in accordance with Condition 13 and to the Trustee and the Principal Paying Agent. The Settlement Shares Depository may then, in its sole and absolute discretion, take steps to deliver to Securityholders the Ordinary Shares to be delivered on Conversion at a time that is earlier than the time at which they would have otherwise received the Alternative Consideration had the Conversion Shares Offer been completed.

By virtue of its holding of any Security, each Securityholder acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Settlement Shares Depository, such Holder shall be deemed to have: (i) irrevocably consented to any Conversion Shares Offer and, notwithstanding that such Ordinary Shares are held by the Settlement Shares Depository on behalf of the Securityholders, to the Settlement Shares Depository using the Ordinary Shares delivered to it on Conversion to settle any Conversion Shares Offer; (ii) irrevocably consented to the transfer of the interest such Holder has in the Ordinary Shares delivered on Conversion to the Settlement Shares Depository to one or more purchasers identified by the Settlement Shares Depository in connection with the Conversion Shares Offer; (iii) irrevocably agreed that the Issuer and the Settlement Shares Depository may take any and all actions necessary to conduct the Conversion Shares Offer in accordance with the terms of the Securities; and (iv) irrevocably agreed

that none of the Issuer, the Trustee or the Settlement Shares Depositary shall, to the extent permitted by applicable law, incur any liability to the Securityholders in respect of the Conversion Shares Offer (except for the obligations of the Settlement Shares Depositary in respect of the Securityholders' entitlement to, and the subsequent delivery of, any Alternative Consideration).

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 Alternative Consideration), including the fees of the Settlement Shares Depositary. 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.

The Trustee shall not be responsible for monitoring any Conversion Shares Offer, nor for monitoring or enforcing the obligations of the Settlement Shares Depositary in respect thereof. Following Conversion and delivery of the Ordinary Shares to the Settlement Shares Depositary, Securityholders must look to the Settlement Shares Depositary for any Ordinary Shares or Alternative Consideration due to them at the relevant time. No costs relating to the Conversion Shares Offer shall be borne by the Trustee.

- (d) Subject as provided in Condition 8.2(e) below, in order to obtain delivery of the relevant Ordinary Shares or the Alternative Consideration, as applicable, following a Conversion of the Securities, the relevant Securityholder must deliver a duly completed Conversion Notice, together with the relevant Certificates representing the Securities to the Settlement Shares Depositary or the specified office of its agent(s) designated for the purpose in the Conversion Trigger Notice by the Notice Cut-off Date.

If such delivery is made or notice is given after the end of normal business hours at the specified office of the Settlement Shares Depositary or, as appropriate, its designated agent as aforesaid or on a day which is not a business day in such place, such delivery or notice shall be deemed for all purposes of these Conditions to have been made or given on the next following business day.

Subject as otherwise provided herein, the relevant Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will be delivered by or on behalf of the Settlement Shares Depositary in accordance with the instructions given in the relevant Conversion Notice.

Any cash component of any Alternative Consideration shall be paid by transfer to a sterling account with a bank in London (as may be specified in the relevant Conversion Notice) in accordance with the instructions contained in the relevant Conversion Notice.

- (e) If not previously cancelled on the relevant Settlement Date, the relevant Securities shall be cancelled on the Long-Stop Date and any Securityholder delivering a Conversion Notice after the Notice Cut-off Date but before the Long-Stop Date will have to provide evidence of its entitlement to the relevant Ordinary Shares or the relevant Alternative Consideration, as applicable, satisfactory to the Settlement Shares Depositary in its sole and absolute discretion in order to receive delivery of such Ordinary Shares or such Alternative Consideration, as applicable. The Issuer shall have no liability to any Securityholder for any loss resulting from such Securityholder not receiving any Ordinary Shares or the relevant Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of such Securityholder failing to submit a valid Conversion Notice and the relevant Certificate, on a timely basis or at all.
- (f) Any determination as to whether any Conversion Notice has been properly completed and delivered together with the relevant Certificate(s) as provided in these Conditions, or whether any evidence of entitlement to Ordinary Shares or Alternative Consideration, as applicable, is satisfactory, shall be made by the Settlement Shares Depositary in its sole and absolute discretion and shall be conclusive and binding on the relevant Securityholders.
- (g) The Issuer will maintain all corporate authorities necessary to issue and allot a sufficient number of Ordinary Shares pursuant to this Condition 8.
- (h) The Securities are not convertible into Ordinary Shares at the option of the Securityholders at any time.

8.3 Adjustments to the Conversion Price

- (a) If and whenever there shall be consolidation, subdivision or reclassification/redesignation affecting the number of Ordinary Shares the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

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

where:

A is the aggregate number of Ordinary Shares in issue immediately prior to such consolidation, subdivision or reclassification/redesignation, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, subdivision or reclassification/redesignation, as the case may be.

Such adjustment shall become effective on the date such consolidation, subdivision or reclassification/redesignation takes effect.

- (b) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid up to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than where:

(i) any such Ordinary Shares are issued instead of the whole or part of a Cash Distribution which the Shareholders would or could otherwise have received;

(ii) the Shareholders may elect to receive a Cash Distribution in lieu of such Ordinary Shares; or

(iii) any such Ordinary Shares are or are expressed to be issued in lieu of a dividend (whether or not a Cash Distribution equivalent or amount is announced or would otherwise be payable to the Shareholders, whether at their election or otherwise),

the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

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

where:

A is the aggregate number of Ordinary Shares in issue immediately prior to such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date on which any such newly issued Ordinary Shares are issued.

- (c) If and whenever the Issuer shall pay any Extraordinary Distribution in cash to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Extraordinary Distribution by the following fraction:

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

where:

A means the Current Market Price of one Ordinary Share on the first date on which the Ordinary Shares are traded ex- the Extraordinary Distribution on the primary stock exchange on which the Ordinary Shares are listed; and

B means the portion of the aggregate Extraordinary Distribution attributable to one Ordinary Share, with such portion being determined by dividing the aggregate Extraordinary Distribution by the number of Ordinary Shares entitled to receive the Extraordinary Distribution.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-the Extraordinary Distribution on the primary stock exchange on which the Ordinary Shares are listed.

- (d) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares, or any securities (including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95% of the Current Market Price per Ordinary Share on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the primary stock exchange on which the Ordinary Shares are listed,

(the **Ex- Date**), then, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Ex-Date by the following fraction:

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

where:

A is the number of Ordinary Shares in issue on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the primary stock exchange on which the Ordinary Shares are listed;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the securities (including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer) issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share on the Ex-Date; and

C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if at the Ex- Date such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 8.3(d), **C** shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Ex- Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Ex- Date.

Such adjustment shall become effective on the Ex- Date.

- (e) Notwithstanding paragraphs (a) to (d) above, and (f) below, no adjustment to the Conversion Price will be made:
- (i) as a result of the payment of any Cash Distribution (other than an Extraordinary Distribution);
 - (ii) to the extent Ordinary Shares or other securities (including rights, warrants or options in relation to Ordinary Shares and other securities) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, directors or employees or former directors or employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its subsidiaries or any associated company or to

a trustee or trustees to be held for the benefit of any such person in any such case pursuant to any employee share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme;

- (iii) if an increase in the Conversion Price would result from such adjustment, except in case of a consolidation of Ordinary Shares; or
- (iv) if it would result in the Conversion Price being reduced below the par value of an Ordinary Share.

and provided further that: (A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8.3 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 which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the then prevailing Regulatory Capital Requirements, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result; and (B) such modification shall, subject to compliance with the prevailing Regulatory Capital Requirements, be made to the operation of these Conditions as may be determined in good faith by an Independent 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.

- (f) If any doubt shall arise as to whether an adjustment is required to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price (including, without limitation, as to the determination of any effective date), and following consultation between the Issuer and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.
- (g) On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.001, shall be rounded down to the nearest integral multiple of £0.001. 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 Securityholders in accordance with Condition 13 promptly after the determination thereof.
- (h) The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists or may happen or exist and which requires or may require an adjustment to be made to the Conversion Price and will not be responsible or liable to any person for any loss arising from any failure by it to do so, nor shall the Trustee be responsible or liable to any person for any determination of whether or not an adjustment to the Conversion Price is required or should be made nor as to the determination or calculation of any such adjustment.

8.4 Qualifying Relevant Event

- (a) If a Qualifying Relevant Event shall occur, the Securities shall, where the Conversion Date (if any) falls on or after the New Conversion Condition Effective Date, be converted on such Conversion Date into Relevant Shares of the Approved Entity (save as provided below in this Condition 8.4 *mutatis mutandis* as provided in this Condition 8) at a Conversion Price that shall be the New Conversion Price. Such conversion shall be effected by the delivery by the Issuer of such number of Ordinary Shares as is determined in accordance with Condition 8.1(c) to, or to the order of, the Approved Entity. Such delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the Securities (but shall be without prejudice to the rights of the Trustee and (in the circumstances described in Condition 11(d)) the Securityholders against the Approved Entity in connection with its undertaking to deliver Relevant Shares as provided in the definition of "New Conversion Condition" in Condition 8.4(e)(iv) below). Such delivery shall be in consideration of the Approved Entity irrevocably

undertaking, for the benefit of the Securityholders, to deliver the Relevant Shares to or to the order of the Securityholders as aforesaid.

- (b) The New Conversion Price shall be subject to adjustment in the circumstances provided in Condition 8.3 (with such modifications and amendments as an Independent Adviser acting in good faith shall determine to be appropriate) and the Issuer shall give notice to the Securityholders (in accordance with Condition 13), the Trustee and the Agents of the New Conversion Price and of any such modifications and amendments.
- (c) In the case of a Qualifying Relevant Event:
 - (i) the Issuer shall, on or prior to the New Conversion Condition Effective Date, enter into such agreements and arrangements, which may include deeds supplemental to the Trust Deed, and such amendments to the Trust Deed and these Conditions shall be made to ensure that, with effect from the New Conversion Condition Effective Date, the Securities shall (following the occurrence of a Trigger Event) be convertible into, or exchangeable for, the Relevant Shares of the Approved Entity, *mutatis mutandis* in accordance with and subject to, this Condition 8 (as may be so supplemented, amended or modified) at the New Conversion Price; and
 - (ii) the Issuer shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, procure the issue and/or delivery of the relevant number of Relevant Shares in the manner provided in this Condition 8, as may be supplemented, amended or modified as provided above.

The Trustee shall (at the expense of the Issuer and provided that the Trustee has satisfied itself that the effect of such amendments will be only that the Securities shall be convertible into, or exchangeable for, the Relevant Shares of the Approved Entity as provided in Condition 8.4(c)(i) above) concur with the Issuer in making any such amendments to the Trust Deed and these Conditions, and execute any such deeds supplemental to the Trust Deed, provided further 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 Securities.

- (d) Within 10 days following the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Securityholders (a **Relevant Event Notice**) in accordance with Condition 13. The Relevant Event Notice shall specify:
 - (i) the identity of the Acquiror;
 - (ii) whether the Relevant Event is a Qualifying Relevant Event or a Non-Qualifying Relevant Event;
 - (iii) in the case of a Qualifying Relevant Event, the New Conversion Price;
 - (iv) in the case of a Non-Qualifying Relevant Event, that, with effect from the occurrence of the Relevant Event and unless the Trigger Event shall have occurred prior to the date of such Relevant Event, outstanding Securities shall not be subject to Conversion at any time notwithstanding that a Trigger Event may occur subsequently but that, instead, upon the occurrence of a subsequent Trigger Event (if any) the full principal amount of each Security will automatically be written down to zero, each Security will be cancelled, the Securityholders 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 Securities written down pursuant to this Condition 8 and all accrued but unpaid interest and any other amounts payable on each Security will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Trigger Event.
- (e) As used in these Conditions:
 - (i) **Acquiror** means the person which, following a Relevant Event, controls the Issuer;

- (ii) **Approved Entity** means a body corporate that is incorporated or established under the laws of an OECD member state and which, on the occurrence of the Relevant Event, has in issue Relevant Shares;
- (iii) **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;
- (iv) the **New Conversion Condition** shall be satisfied if (a) by not later than seven days following the occurrence of a Relevant Event where the Acquiror is an Approved Entity, the Issuer shall have entered into arrangements to its satisfaction with the Approved Entity pursuant to which the Approved Entity irrevocably undertakes to the Trustee, for the benefit of the Securityholders, to deliver the Relevant Shares to or to the order of the Securityholders upon a Conversion of the Securities, all as contemplated in Condition 8.4(a) and (b) the Issuer, in its sole and absolute discretion, has determined that such arrangements are in the best interests of the Issuer and its shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Securityholders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body);
- (v) **New Conversion Condition Effective Date** means the date with effect from which the New Conversion Condition shall have been satisfied;
- (vi) **New Conversion Price** means the higher of (A) the New Conversion Price and (B) the nominal amount of one Relevant Share, where the **New Conversion Price** is the amount determined by the Issuer in accordance with the following formula:

$$\text{NCP} = \text{ECP} \times (\text{VWAPRS}/\text{VWAPOS})$$

where:

NCP is the New Conversion Price;

ECP is the Conversion Price in effect on the dealing day immediately prior to the New Conversion Condition Effective Date;

VWAPRS means the average of the VWAP of the Relevant Shares (translated, if necessary, into pounds sterling at the Prevailing Rate on the relevant Trading Day) on each of the 10 Trading Days ending on the Trading Day prior to the date the Relevant Event shall have occurred (and where references in the definitions of “VWAP” and “Trading Day” to “Ordinary Shares” shall be construed as a reference to the Relevant Shares); and

VWAPOS is the average of the VWAP of the Ordinary Shares (translated, if necessary into pounds sterling at the Prevailing Rate on the relevant Trading Day) on each of the 10 Trading Days ending on the Trading Day prior to the date the Relevant Event shall have occurred;

- (vii) **Non-Qualifying Relevant Event** means a Relevant Event that is not a Qualifying Relevant Event;
- (viii) **Qualifying Relevant Event** means a Relevant Event where: (A) the Acquiror is an Approved Entity; and (B) the New Conversion Condition is satisfied;
- (ix) **Regulated Market** means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state;
- (x) a **Relevant Event** shall occur if any person or persons acting in concert (as defined in the Takeover Code of the United Kingdom Panel on Takeovers and Mergers) acquires control of the Issuer (other than as a result of a Newco Scheme). For the purposes of this definition of Relevant Event, **control** means, directly or indirectly:

- (A) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the issued Ordinary Shares of the Issuer; or
- (B) the right to appoint and/or remove all or the majority of the members of the board of directors of the Issuer, whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise,

and **controlled** shall be construed accordingly; and

- (xi) **Relevant Shares** means ordinary share capital of the Approved Entity that constitutes equity share capital or the equivalent (or depositary or other receipts representing the same) which is listed and admitted to trading on a Regulated Market.

8.5 Covenants

Whilst any Security 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 Capital Disqualification 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 Securities 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. The Trustee shall (at the expense of the Issuer and provided that the Trustee has satisfied itself that the effect of such amendments will be only that the Securities 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) concur in effecting such amendments, provided that the Trustee shall not be bound to concur if to do so would (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 Securities.

8.6 Taxes etc.

Neither the Trustee nor the Issuer shall be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the delivery of Ordinary Shares upon Conversion. A Securityholder must pay any taxes and capital, stamp, issue, registration and transfer taxes and duties arising for it on Conversion in connection with the issue and delivery of Ordinary Shares or the Ordinary Shares component of any Alternative Consideration to the Settlement Shares Depository on behalf of such Securityholder and the delivery of Ordinary Shares or the Ordinary Shares component of any Alternative Consideration by the Settlement Shares Depository to such Securityholder and such Securityholder must pay all, if any, such taxes or duties arising by reference of any disposal or deemed disposal of its Securities (or any interest therein) and/or the issue or delivery to it of any Ordinary Shares or the Ordinary Shares component of any Alternative Consideration (or any interest therein).

8.7 Delivery

The Ordinary Shares to be delivered on Conversion will be issued and delivered to the Settlement Shares Depository (or as otherwise provided in these Conditions) on behalf of the Securityholders on the Conversion Date. Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will be delivered to Securityholders in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST, in which case Ordinary Shares will be delivered either in the form required by the relevant clearing system in which the Ordinary Shares are a participating security or in certificated form.

Where any Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) are to be delivered to Securityholders through CREST, they will be delivered to the account specified by the relevant Securityholders to the Issuer in accordance with the instructions to be contained in the Conversion Notice. Where any Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) are to be delivered to Securityholders in certificated form, a certificate in respect thereof will be dispatched by mail free of charge to the relevant Securityholder or as it may direct the Issuer in accordance with the instructions to be contained in the Conversion Notice within 28 days following receipt by the Issuer of such direction from the Securityholder.

The Ordinary Shares (or the Ordinary Share component of any Alternative Consideration) will not be available for issue or delivery (i) to, or to a nominee for, Euroclear or Clearstream, Luxembourg or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) 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 (iii) to the CREST account of such a person described in (i) or (ii).

8.8 Ordinary Shares

Ordinary Shares issued upon Conversion will be fully paid and will in all respects rank *pari passu* with the 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 such Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments as of any applicable record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

9. TAXATION

9.1 Payment without withholding

All payments by or on behalf of the Issuer in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Issuer will pay such additional amounts (**Additional Amounts**) in respect of the payment of any interest on (but not, for the avoidance of doubt, in respect of the payment of the principal amount of) the Securities as may be necessary in order that the net amounts in respect of any interest received by the Securityholders after the withholding or deduction shall equal the amounts of any interest which would have been receivable in respect of the Securities in the absence of any withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Security:

- (a) held by or on behalf of a Securityholder who is liable to such Taxes in respect of such Security by reason of it having some connection with the United Kingdom other than the mere holding of the Security;
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Securityholder would have been entitled to such additional amounts on surrendering such Certificate for payment on the last day of such period of 30 days; or
- (c) where the Securityholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority.

9.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Securities shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. The restrictions on interest payments in Condition 5.1 shall apply to any Additional Amounts *mutatis mutandis*.

10. PRESCRIPTION

Securities 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 Securities, subject to the provisions of Condition 6.

11. ENFORCEMENT

- (a) In the event of a Winding-Up, or if the Issuer has not made payment of any amount in respect of the Securities for a period of seven days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Securities and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up. The Trustee may prove in a Winding-Up (whether or not instituted by the Trustee) such claim as is set out in Condition 4.1 or 4.2, as applicable.
- (b) Without prejudice to Condition 11(a), the Trustee may, at its discretion, and without notice, institute such proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer (including, without limitation, proceedings, actions or steps to enforce obligations of the Issuer in connection with a Conversion) under the Trust Deed (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Securities, including any damages awarded for breach of any obligations but excluding any amount due to the Trustee, other than amounts due to the Trustee on behalf of Securityholders, in accordance with the Trust Deed) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions or the Trust Deed. Nothing in this Condition 11(b) shall, however, prevent the Trustee instituting proceedings for the Winding-Up, proving in any Winding-Up or exercising rights under Condition 4.1 or, as applicable, Condition 4.2 in respect of any payment obligations of the Issuer arising from or in respect of the Securities or the Trust Deed (including any damages awarded for breach of any obligations).
- (c) The Trustee shall not be bound to take any of the actions referred to in Condition 11(a) or 11(b) against the Issuer to enforce the terms of the Securities or the Trust Deed or any other action under or pursuant to the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.
- (d) No Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a Winding-Up or to prove in a Winding-Up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 11.
- (e) No remedy against the Issuer, other than as referred to in this Condition 11, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities 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 Securities or the Trust Deed.

12. 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.

13. NOTICES

All notices regarding the Securities shall be valid if sent by post to the Securityholders at their respective addresses in the Register and, if and for so long as the Securities are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, published in a daily newspaper of general circulation in Luxembourg or on the Luxembourg Stock Exchange's website, www.bourse.lu. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. 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.

14. MEETINGS OF SECURITYHOLDERS, MODIFICATION AND WAIVERS

14.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders 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 Securityholders 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 Securities for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Securities held or represented by him or them, except that at any meeting the business of which includes Reserved Matters, 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 Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Securityholders will be binding on all Securityholders, 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 Securities who for the time being are entitled to receive notice of a meeting of Securityholders 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 Securityholders.

14.2 Modification and waiver

- (a) Subject as provided in Condition 14.2(b) below, except where the Trustee is bound pursuant to Conditions 8.4(c)(i) and 8.5 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 Securityholders, 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 Securityholders) 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.
- (b) Any modification or waiver of these Conditions and the Trust Deed shall be subject to the Issuer obtaining Regulatory Approval. If the Trustee is requested to consider any modification or waiver of the Conditions or Trust Deed or to convene a meeting of Securityholders in respect thereof, the Issuer shall provide to the Trustee a certificate signed by two Authorised Signatories certifying that it has obtained Regulatory Approval or that Regulatory Approval is not required, and the Trustee shall rely, and act upon, such certificate absolutely without any liability for so doing.

14.3 Trustee to have regard to interests of Securityholders 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 Securityholders as a class but shall not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Securityholders (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 Securityholder 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 Securityholders 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.

14.4 Notification to the Securityholders

Any modification, abrogation, waiver, authorisation or substitution shall be binding on the Securityholders and, unless the Trustee agrees otherwise, notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 13.

15. SUBSTITUTION OF THE ISSUER

The Trustee may, without the consent of the Securityholders but subject to Regulatory Approval, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition 15) as the principal debtor under the Securities, the Trust Deed and the Agency Agreement of any of its other wholly-owned Subsidiaries, subject to:

- (a) the Trustee being satisfied that such substitution is not materially prejudicial to the interests of the Securityholders; and
- (b) certain other conditions set out in the Trust Deed being complied with.

Any substitution pursuant to this Condition 15 shall be binding on the Securityholders and shall be notified by the Issuer to the Securityholders in accordance with Condition 13 not less than 30 nor more than 60 days' prior to such substitution taking effect.

16. INDEMNIFICATION AND PROTECTION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

16.1 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 Securityholders, 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 and/or security and/or pre-funding given to it by the Securityholders 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.

16.2 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 Securityholders, 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.

16.3 Reliance by Trustee on reports, confirmations, certificates and advice

The Trustee may rely without liability to Securityholders 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 Securityholders.

16.4 Mandatory modifications

When implementing any modification pursuant to Condition 8.4(c)(i) or 8.5, the Trustee shall not consider the interests of the Securityholders or any other person. The Trustee shall not be liable to the Securityholders or any other person for so acting, 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.

17. FURTHER ISSUES

The Issuer may from time to time without the consent of the Securityholders create and issue further securities having the same terms and conditions as the Securities 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 Securities. Any further securities which are to form a single series with the Securities 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 Securityholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Trust Deed and the Securities and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

18.2 Jurisdiction of English courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Securityholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed or the Securities respectively (including any suit, action or proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) (together referred to as **Proceedings**) against the Issuer or the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

19. RIGHTS OF THIRD PARTIES

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

20. DEFINITIONS

In these Conditions:

5-year Mid-Swap Rate has the meaning given to it in Condition 5.4(b)(i).

5-year Mid-Swap Rate Quotations has the meaning given to it in Condition 5.4(b)(ii).

Accrual Date has the meaning given to it in Condition 5.3.

Acquiror has the meaning given to it in Condition 8.4(e)(i).

Additional Amounts has the meaning given to it in Condition 9.1.

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

Agent means the Registrar, the Principal Paying Agent and each of the other agents appointed pursuant to the Agency Agreement.

Agent Bank means an independent investment bank or financial institution to be appointed by the Issuer no later than the First Reset Date (unless the Securities are to be redeemed on that date pursuant to Condition 7.2) to perform the functions expressed to be performed by the Agent Bank under these Conditions.

Alternative Consideration means in respect of each Security and as determined by the Issuer (i) if all of the Ordinary Shares to be issued and delivered on Conversion are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such Security (less 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 in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depository pursuant to the Conversion Shares Offer), (ii) if some but not all of such Ordinary Shares to be issued and delivered upon Conversion are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of such Ordinary Shares attributable to such Security (less 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 in connection with the delivery of Ordinary Shares to the Settlement Shares Depository pursuant to the Conversion Shares Offer) and (y) the *pro rata* share of such Ordinary Shares not sold pursuant to the Conversion Shares Offer attributable to such Security rounded down to the nearest whole number of Ordinary Shares and (iii) if no Ordinary Shares are sold in the Conversion Shares Offer, the relevant number of Ordinary Shares that would have been received had the Issuer not elected that the Settlement Shares Depository should carry out a Conversion Shares Offer.

Approved Entity has the meaning given to it in Condition 8.4(e)(ii).

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 Signatory has the meaning given to it in the Trust Deed.

Business Day has the meaning given to it Condition 5.4(b)(iii).

Calculation Amount means £1,000 in principal amount of Securities.

Capital Disqualification Event has the meaning given to it in Condition 7.3.

Cash Distribution means any dividend or distribution in respect of the Ordinary Shares which is to be paid or made to Shareholders as a class in cash (whatever the 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 1.1.

Code has the meaning given to it in Condition 6.2.

Common Equity Tier 1 means, as at any date, the sum, expressed in pounds sterling, of all amounts that constitute common equity tier 1 capital (as that term is used in the Regulatory Capital Requirements) of the Issuer Group as at such date, less any deductions from common equity tier 1 capital required to be made as of such date, in each case as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements but without applying the transitional provisions set out in Part Ten of the CRD IV Regulation.

Common Equity Tier 1 Capital Ratio means, as of any date, the ratio of Common Equity Tier 1 of the Issuer Group as of such date to the Risk Weighted Assets of the Issuer Group as of the same date, 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.

Conditions means these terms and conditions of the Securities, as amended from time to time.

Conversion means the write down of the principal amount of the Securities and the issuance and delivery of Ordinary Shares pursuant to Condition 8, and **convert** and **converted** shall be construed accordingly.

Conversion Date means the date specified as such in the Conversion Trigger Notice and, in accordance with Condition 8.1, in any event no later than one month (or such shorter period as the Supervisory Authority may then require) from the occurrence of the Trigger Event.

Conversion Notice means a notice in the form for the time being currently available from the specified office of any Principal Paying Agent and which is required to be delivered to the Settlement Shares Depository (or its agent(s) designated for the purpose in the Conversion Trigger Notice) in connection with a Conversion of the Securities.

Conversion Price means £2.96, subject to any adjustment pursuant to Condition 8.3.

Conversion Shares Offer has the meaning given to it in Condition 8.2(c).

Conversion Shares Offer Election Notice has the meaning given to it in Condition 8.2(c).

Conversion Shares Offer Period has the meaning given to it in Condition 8.2(c).

Conversion Trigger Notice has the meaning given to it in Condition 8.1.

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 as of any date the average daily VWAP of an Ordinary Share on each of the 5 consecutive dealing days ending on the dealing day immediately preceding such date.

Day-Count Fraction has the meaning given to it in Condition 5.3.

Distributable Items means, subject as otherwise defined in the Regulatory Capital Requirements, in relation to interest otherwise scheduled to be paid on an Interest Payment Date, the amount of the profits of the Issuer as at the end of the financial year immediately preceding such Interest Payment Date plus:

- (a) any profits brought forward and reserves available for that purpose before distributions to holders of other own funds items (other than Tier 2 Capital items) of the Issuer; less
- (b) 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 2006 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 has the meaning given to it in Condition 8.4(e)(iii).

Ex- Date has the meaning given to it in Condition 8.3(d).

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 a Recognised Stock Exchange or (ii) admitted to listing on such other regulated market as the Issuer or Newco may determine.

Extraordinary Distribution means any Cash Distribution 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 analogous or similar term, in which case the Extraordinary Distribution shall be such Cash Distribution.

Extraordinary Resolution has the meaning given to it in the Trust Deed.

First Reset Date has the meaning given to it in Condition 5.2(a).

Independent Adviser means any independent financial institution of international standing or independent financial adviser with appropriate expertise, the identity of which has been approved by the Trustee, appointed

by the Issuer at its own expense from time to time for the purposes of carrying out the duties described in one or more of these Conditions and in performing such role such entity shall have regard to the interests of the Issuer and the Securityholders alike.

Initial Interest Rate has the meaning given to it in Condition 5.2(a).

Interest Amount means the amount due on each Security on an Interest Payment Date.

Interest Payment Date has the meaning given to it in Condition 5.2.

Interest Period has the meaning given to it in Condition 5.2.

Interest Rate means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be.

Issue Date means 10 November 2016.

Issuer has the meaning given to it in the preamble to these Conditions.

Issuer 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.

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.

Long-Stop Date means the date on which any Securities in relation to which no Conversion Notice has been received by the Settlement Shares Depositary (or its designated agent(s)) on or before the Notice Cut-off Date shall be cancelled, which date is expected to be no more than 12 London business days following the Notice Cut-off Date and which will be notified to Securityholders in the Conversion Trigger Notice and/or the Conversion Shares Offer Election Notice (as applicable).

Margin has the meaning given to it in Condition 5.4(b)(iv).

New Conversion Condition has the meaning given to it in Condition 8.4(e)(iv).

New Conversion Condition Effective Date has the meaning given to it in Condition 8.4(e)(v).

New Conversion Price has the meaning given to it in Condition 8.4(e)(vi).

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.

Non-Qualifying Relevant Event has the meaning given to it in Condition 8.4(e)(vii).

Notice Cut-off Date means: (i) where the Issuer has not elected for the Settlement Shares Depositary to carry out a Conversion Shares Offer, the date specified as such in the Conversion Trigger Notice, which date shall be at least 20 London business days following the Conversion Date; or (ii) where the Issuer has elected for the Settlement Shares Depositary to carry out a Conversion Shares Offer, the date specified as such in any

Conversion Shares Offer Election Notice, which date shall be at least 20 London business days following the expiry of the Conversion Shares Offer Period.

Notional Preference Share has the meaning given to it in Condition 4.1.

Ordinary Shares means ordinary voting shares in the capital of the Issuer.

Parity Tier 1 Instruments means any obligations of the Issuer which rank or are expressed to rank on a Winding-Up or in respect of a distribution or payment of dividends or any other payments thereon *pari passu* with the Issuer's obligations in respect of the Securities (for the avoidance of doubt, excluding any ordinary share capital of the Issuer and, for so long as they are outstanding, including the Issuer's £160,000,000 Fixed Rate Resetable Additional Tier 1 Securities issued on 31 July 2014).

Paying Agent means each entity appointed as a paying agent from time to time pursuant to the Agency Agreement.

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 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 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 Adviser shall in good faith prescribe.

Principal Paying Agent means Citibank, N.A., London Branch or such other principal paying agent appointed by the Issuer from time to time in respect of the Securities in accordance with these conditions.

Proceedings has the meaning given to it in Condition 18.2.

Qualifying Relevant Event has the meaning given to it in Condition 8.4(e)(viii).

Recognised Stock Exchange means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time.

record date has the meaning given to it in Condition 6.1.

Register has the meaning given to it in Condition 1.2.

Registrar means Citibank, N.A., London Branch or such other registrar appointed by the Issuer from time to time in respect of the Securities in accordance with these Conditions.

Regulated Market has the meaning given to it in Condition 8.4(e)(ix).

Regulatory Approval means such approval, prior permission or consent, or notification required within prescribed periods to, the Supervisory Authority, or such waiver of the then prevailing Regulatory Capital Requirements from the Supervisory Authority, as is required under the then prevailing Regulatory Capital Requirements.

Regulatory Capital Requirements means any requirements contained in the regulations, requirements, guidelines and policies of the Supervisory Authority, or of the European Parliament and Council, then in effect in the United Kingdom relating to capital adequacy and applicable to the Issuer and/or the Issuer Group.

Regulatory Preconditions means, in relation to any redemption of the Securities, to the extent required by prevailing Regulatory Capital Requirements:

- (a) the Issuer Group having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer Group; or
- (b) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer Group would, following such redemption, exceed its minimum capital requirements

(including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; or

- (c) if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with an alternative pre-condition to either of those set out in paragraphs (a) and (b) of this definition, or require compliance with an additional pre-condition, the Issuer having complied with such other pre-condition.

Relevant Date means 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 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 Securityholders.

Relevant Distribution has the meaning given to it in the definition of Extraordinary Distribution.

Relevant Event has the meaning given to it in Condition 8.4(e)(x).

Relevant Event Notice has the meaning given to it in Condition 8.4(d).

Relevant Shares has the meaning given to it in Condition 8.4(e)(xi).

Relevant Year has the meaning given to it in the definition of Extraordinary Distribution.

Reset Date means the First Reset Date and each date that falls five, or a multiple of five, years following the First Reset Date.

Reset Determination Date has the meaning given to it Condition 5.4(b)(v).

Reset Interest Rate has the meaning given to it in Condition 5.4(a).

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 5.4(b)(vi).

Reset Reference Banks has the meaning given to it in Condition 5.4(b)(vii).

Reserved Matter has the meaning given to it in the Trust Deed.

Risk Weighted Assets means, as at any date, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Issuer Group as at such date, as calculated by the Issuer on a consolidated basis, in accordance with the then prevailing Regulatory Capital Requirements.

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 5.4(b)(viii).

Securities has the meaning given to it in the preamble to these Conditions.

Securityholder has the meaning given to it in Condition 1.2.

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 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 Securityholders in a Winding-Up occurring prior to the Trigger Event (and, for the avoidance of doubt, Senior Creditors shall include holders of Tier 2 Capital instruments).

Settlement Date means:

- (a) with respect to any Security in relation to which a Conversion Notice is received by the Settlement Shares Depository or its designated agent on or before the Notice Cut-off Date where the Issuer has not elected that the Settlement Shares Depository will carry out a Conversion Shares Offer, the date that is two London business days after the latest of (a) the Conversion Date, (b) the date on which the Issuer announces that it will not elect for the Settlement Shares Depository to carry out a Conversion Shares Offer (or, if no such announcement is made, the last date on which the Issuer is entitled to give the Conversion Shares Offer Election Notice) and (c) the date on which the relevant Conversion Notice has been received by the Settlement Shares Depository or its designated agent;
- (b) with respect to any Security in relation to which a Conversion Notice is received by the Settlement Shares Depository or its designated agent on or before the Notice Cut-off Date where the Issuer has elected that the Settlement Shares Depository will carry out a Conversion Shares Offer, the date that is two London business days after the latest of (a) the date on which the Conversion Shares Offer Period expires or is terminated and (b) the date on which the Conversion Notice has been received by the Settlement Shares Depository or its designated agent; and
- (c) with respect to any Security in relation to which a Conversion Notice is not so received by the Settlement Shares Depository or its designated agent on or before the Notice Cut-off Date, the date on which the Settlement Shares Depository delivers the relevant Ordinary Shares or the relevant Alternative Consideration, as applicable, to the relevant Securityholder.

Settlement Shares Depository means a reputable financial institution, trust company 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 given to the Settlement Shares Depository in these Conditions is required to be performed, to perform such functions and that will hold the Ordinary Shares (and any Alternative Consideration) on behalf of the Securityholders in one or more segregated accounts, unless otherwise required to be transferred out of such accounts for the purposes of the Conversion Shares Offer, and otherwise on terms consistent with these Conditions provided that the Settlement Shares Depository will not act as a person issuing depository receipts for the purposes of Section 93 of the Finance Act 1986.

Shareholders means the holders of Ordinary Shares.

Solvency Condition has the meaning given to it in Condition 3.2.

Subsidiary means each subsidiary undertaking (as defined under section 1159 of the Companies Act) for the time being of the Issuer.

Supervisory Authority means the United Kingdom Prudential Regulation Authority and any successor or replacement thereto or such other authority having primary responsibility for the prudential oversight and supervision of the Issuer and/or the Issuer Group.

Tax Event has the meaning given to it in Condition 7.4.

Taxes has the meaning given to it in Condition 9.1.

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

Tier 2 Capital has the meaning given to it (or any successor term) from time to time in the Regulatory Capital Requirements.

Trading Day means any day (other than a Saturday or a Sunday) on which the primary stock exchange on which the Ordinary Shares are listed is open for business and the Ordinary Shares may be traded.

Trigger Event means, at any time, the Common Equity Tier 1 Capital Ratio of the Issuer 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 Securities in accordance with the Conditions.

Trust Deed has the meaning given to it in the preamble to these Conditions.

VWAP in relation to an Ordinary Share on any Trading Day means the order book volume weighted average price of such Ordinary Share on such Trading Day (rounded to the nearest second decimal place) published by or derived from the relevant Bloomberg page or, if there is no such relevant page, such other source as shall be determined by an Independent Adviser to be appropriate on such Trading Day, provided that if on any such Trading Day such price is not available or cannot otherwise be determined as provided above, the VWAP of an Ordinary Share in respect of such Trading Day shall be the VWAP, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

Winding-Up means:

- (a) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by the Trustee or an Extraordinary Resolution and do not provide that the Securities thereby become redeemable or repayable in accordance with these Conditions);
- (b) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or
- (c) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (a) or (b) 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.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE

The following is a summary of the provisions to be contained in the Trust Deed and in the Global Certificate which will apply to, and in some cases modify the effect of, the Conditions while the Securities are represented by the Global Certificate:

1. EXCHANGE OF THE GLOBAL CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to Securities in a name other than that of the nominee for Euroclear and Clearstream, Luxembourg, Citivic Nominees Limited, (the “**Nominee**”) will be permitted only if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Registrar is available. References herein to “**Accountholders**” are to each person (other than Euroclear and Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular principal amount of Securities (in which regard any certificate or other document issued by that clearing system as to the principal amount of Securities standing to the account of any person shall be conclusive and binding for all purposes).

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders) may give notice to the Issuer of its intention to exchange the Global Certificate for definitive Certificates on or after the Exchange Date (as defined below).

On or after the Exchange Date, the Nominee may surrender the Global Certificate to, or to the order of, the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive Certificates in minimum principal amounts of £200,000 and integral multiples of £1,000 in excess thereof printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Global Certificate, the Issuer will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive Certificates.

For these purposes, “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

2. CANCELLATION

Cancellation of any Securities following their redemption, purchase by the Issuer or any of the Issuer’s subsidiaries or following their Conversion will be effected by reduction in the aggregate principal amount of the Securities in the register of Securityholders, and a corresponding reduction in the principal amount of Securities represented by the Global Certificate will be made accordingly.

3. PAYMENTS

Payments due in respect of Securities represented by the Global Certificate shall be made by the Principal Paying Agent to, or to the order of, the Nominee. A record of each payment made in respect of Securities represented by the Global Certificate will be endorsed on the appropriate part of the schedule to the Global Certificate by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Securities.

Payment by the Principal Paying Agent to or to the order of the Nominee will discharge the obligations of the Issuer in respect of the relevant payment under the Securities. 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 Nominee, and each beneficial owner of Securities who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its Securities for its share of each payment made to such Accountholder.

4. CALCULATION OF INTEREST

For so long as all of the Securities are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, interest shall be calculated on the basis of the aggregate principal amount of the Securities represented by the Global Certificate, and not per Calculation Amount as provided in Condition 5.3.

5. TRANSFERS

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

6. NOTICES

For so long as the Securities are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices may be given to the Securityholders by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant Accountholders and beneficial owners in substitution for notification as required by Condition 13 except that, so long as the Securities are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a daily newspaper having general circulation in Luxembourg or on the Luxembourg Stock Exchange's website, www.bourse.lu. Such notice shall be deemed to have been given on the date of delivery of the notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for such communication.

Notwithstanding the provisions of Condition 8 of the Conditions, if the Securities are represented by the Global Certificate and held through Euroclear or Clearstream, Luxembourg, the Accountholder shall give a Conversion Notice to the Settlement Shares Depository (or an agent designated for the purpose in the Conversion Trigger Notice) in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg prior to the Notice Cut-off Date (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Settlement Shares Depository by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with the following details: (1) the name of the Securityholder; (2) the principal amount of Securities held by it and the subject of the Conversion; (3) the CREST account details or, if on Conversion the Ordinary Shares are not a participating security in CREST, the address to which any Ordinary Shares (if any) should be delivered; (4) details of a pounds sterling account with a bank in London to which any cash component of any Alternative Consideration (if any) should be paid; and (5) such other details as Euroclear or Clearstream, Luxembourg may require. Any reference in the Conditions to the delivery of Conversion Notices shall be construed accordingly.

7. MEETINGS

For the purposes of any meeting of Securityholders, the holder of the Securities represented by the Global Certificate shall be treated as one person for the purposes of any quorum requirements and as being entitled to one vote in respect of each £1,000 in principal amount of the Securities.

8. ELECTRONIC CONSENT AND WRITTEN RESOLUTION

For so long as the Securities are in the form of a Global Certificate registered in the name of any nominee for one or more of Euroclear and Clearstream, Luxembourg, then, in respect of any resolution proposed by the Issuer or the Trustee:

- (i) where the terms of the proposed resolution have been notified to the Securityholder through the relevant clearing system(s), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in principal amount of the Securities outstanding ("**Electronic Consent**"). Neither the Issuer nor the Trustee shall be liable or responsible to anyone for such reliance; and
- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution 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, by accountholders in the clearing system(s) with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and/or the Trustee (as the case may be) have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Securityholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "commercially reasonable evidence" includes (without limitation) any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an

intermediary in a holding chain, in relation to the holding of interests in the Securities. Any such certificate or other document shall, in the absence of manifest error, 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 Securities 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.

9. CONVERSION

Any Conversion of Securities held in Euroclear or Clearstream, Luxembourg will be effected in accordance with the procedures set out in the Conversion Trigger Notice referred to in Condition 8.1 and otherwise in accordance with the relevant procedures of Euroclear and Clearstream, Luxembourg.

10. SUSPENSION

Any Conversion Shares Offer Election Notice shall provide details of the Suspension Date (if not previously specified in the Conversion Trigger Notice) and the notice requirements contained in Condition 8 shall be amended accordingly (including that notice shall be given, if required, of any amendment to the Notice Cut-off Date and Long-Stop Date previously specified in the Conversion Trigger Notice).

The Issuer may specify a Suspension Date in the Conversion Trigger Notice and then subsequently amend that date in the Conversion Shares Offer Election Notice (and any notice of termination of the Conversion Shares Offer).

"Suspension Date" means a date specified by the Issuer in the Conversion Trigger Notice or the Conversion Shares Offer Election Notice (and any notice of termination of the Conversion Shares Offer), as the case may be, as being the date on which the Clearing Systems shall suspend all clearance and settlement of transactions in the Securities in accordance with its rules and procedures which date shall, in the case of a Conversion Shares Offer, be as proximate to the end of the Conversion Shares Offer Period as is reasonably practicable in accordance with the rules and procedures of the applicable Clearing System(s). Any Conversion Notice delivered prior to the day following the Suspension Date shall be void.

Delivery of the Conversion Shares Offer Consideration, if applicable, following a Conversion of the Securities shall be made by the Conversion Shares Depository in accordance with the applicable Clearing System(s) practices from time to time. The Conversion Notice must be given in accordance with the standard procedures of the applicable Clearing System(s) (which may include, without limitation, delivery of the notice to the Conversion Shares Depository by electronic means) and in a form acceptable to the applicable Clearing System(s) and the Conversion Shares Depository.

11. PRESCRIPTION

Claims against the Issuer in respect of any amounts payable in respect of the Securities represented by the Global Certificate will be prescribed after ten years (in the case of principal) and five years (in the case of interest) from the due date.

12. RECORD DATE

For so long as all Securities are held in Euroclear and Clearstream, Luxembourg, the **"record date"** shall be determined in accordance with Condition 6.1 except that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day" (where **"ICSD Business Day"** means a day on which Euroclear and Clearstream, Luxembourg are open for business).

13. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

References in the Global Certificate and this summary to Euroclear and Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved for the purposes of the Securities by the Trustee and the Registrar.

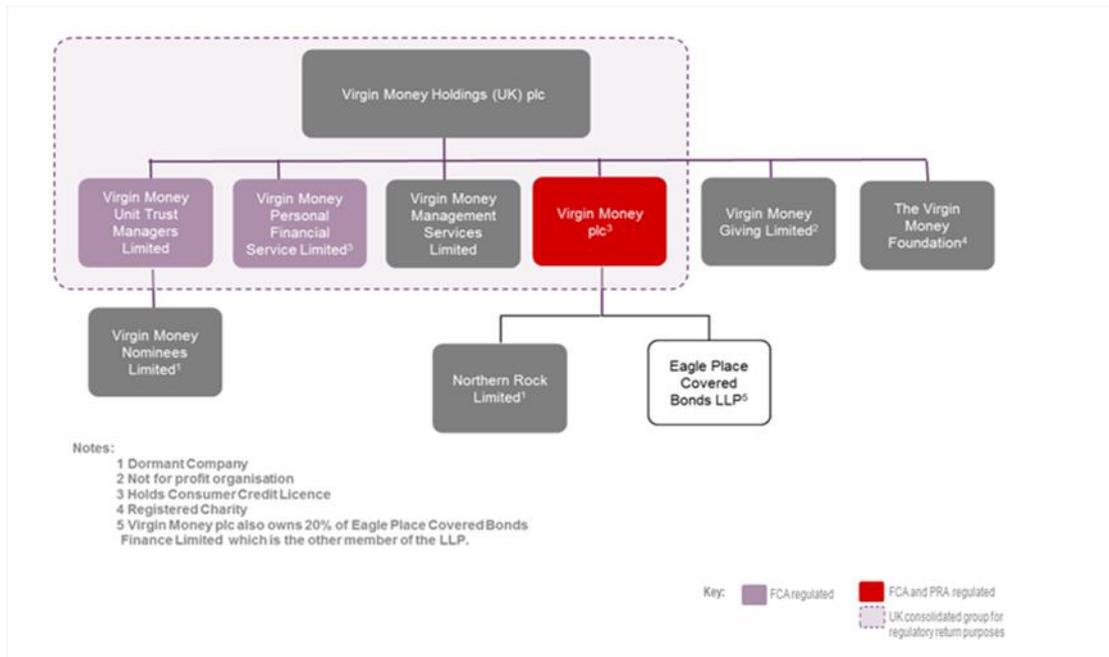
USE OF PROCEEDS

The net proceeds of the issue of the Securities will be used for the general business purposes of the Group and to strengthen the capital base of the Group. The Issuer expects to loan the proceeds of the Securities to the Bank.

DESCRIPTION OF VIRGIN MONEY’S BUSINESS

The Issuer and its wholly owned subsidiary Virgin Money plc (the “**Bank**”) are public limited companies registered in England and Wales, under numbers 03087587 and 06952311, respectively. The Issuer is the ultimate holding company of the Virgin Money Group.

The chart below sets out the current structure of the Virgin Money Group.



The Virgin Money Group is primarily focused on providing residential mortgages, savings and credit cards, along with a range of financial products including investments and insurance. With over 3 million customers, the Virgin Money Group provides access to its products and services to customers through a range of channels, including digital (online and mobile), intermediaries, call centres and a national network of 75 stores and seven customer lounges. Access to certain banking services is also available through around 11,500 Post Office branches. The Virgin Money Group's operations are centred in Gosforth, with additional offices in London, Edinburgh, Norwich, Chester and Milton Keynes. The monthly average number of persons (including directors) employed by the Virgin Money Group was 3,058 in 2015 (2014: 2,904).

The Virgin Money Group's approach to banking reflects its corporate ambition of making “everyone better off”. The Virgin Money Group aspires to offer good value to customers, treat its employees well, make a positive contribution to society, build positive relationships with its corporate partners and deliver sustainable profits to shareholders.

The registered office of the Issuer is at Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL, United Kingdom. Virgin Money's internet address is www.virginmoney.com (it should be noted that the content of the www.virginmoney.com website does not form part of this Information Memorandum) and its telephone number is +44 345 600 8401.

HISTORY

Virgin Money commenced operations as Virgin Direct in 1995, initially offering personal equity plans (known as PEPs) and later personal pensions, ISAs and various forms of insurance. In 1997, Virgin One Ltd, a joint venture between Virgin Direct and The Royal Bank of Scotland plc (“**RBS**”) developed an innovative current account mortgage and this business was sold to RBS in 2001. In 2002, Virgin Direct was rebranded as Virgin Money and launched the Virgin Money credit card in partnership with MBNA. In 2010, Virgin Money obtained its first deposit taking licence following the acquisition of Church House Trust, a small privately owned, regional bank.

Northern Rock Building Society was formed in 1965 following the merger of the Northern Counties Permanent Building Society and the Rock Building Society. It converted to a public limited company in 1997 when it was also listed on the London Stock Exchange. In 2008, it entered temporary public ownership and, on 1 January 2010, its business was separated into two entities: the original entity renamed Northern Rock (Asset Management) plc and, subsequently, NRAM plc (“**NRAM**”), which retained all stressed and securitised assets and which was owned by HM Treasury through

UK Asset Resolution, and a new entity, Northern Rock plc, which held all of the customer retail savings and current accounts and a core portfolio of high quality performing mortgage assets. In addition, all branches, mortgage origination capabilities and information technology were transferred to the new Northern Rock plc.

Following the separation, Northern Rock plc carried on business as a mortgage and savings bank, primarily funded by retail deposits.

On 1 January 2012, the Issuer acquired the entire issued share capital of Northern Rock plc from HM Treasury. As a result, Northern Rock plc became part of Virgin Money and it was renamed Virgin Money plc on 12 October 2012. As part of the acquisition, a new board of directors of Northern Rock plc was appointed on 1 January 2012.

On 2 January 2012, the Bank (then still known as Northern Rock plc) acquired Virgin Money Cards Limited (formerly Virgin Money Limited) from the Issuer. The principal business of Virgin Money Cards Limited was the marketing of personal credit cards and pre-paid cards which were distributed pursuant to partnership agreements with MBNA.

On 20 July 2012, the Bank entered into a transaction to acquire a mortgage portfolio of NRAM originated loans from NRAM for a purchase consideration of £466.4 million, paid in cash.

On 18 January 2013, the Bank completed the sale of Virgin Money Cards Limited to MBNA and the acquisition from MBNA of £1.0 billion of assets from the Virgin Money credit card portfolio. In March 2015, the Bank migrated the accounts that it acquired from MBNA and the accounts originated by MBNA to the Virgin Money credit card business and platform. The Bank began originating its own credit cards in late 2014.

On 13 November 2014, the Issuer successfully listed on the London Stock Exchange, via an initial public offering.

On 30 November 2014, Virgin Money sold Church House Trust to Ocean Industries S.A. for £13 million.

BOARD OF DIRECTORS

The below table lists the directors of the Issuer.

Directors of the Issuer

Glen Moreno
 Jayne-Anne Gadhia
 Patrick McCall
 Gordon McCallum
 Norman McLuskie
 Colin Keogh
 Marilyn Spearing
 Geeta Gopalan

The directors' month and year of birth, dates of appointment, functions within the Virgin Money Group and principal directorships are as set out below.

Name (and month and year of birth)	Date of appointment to Issuer	Business functions within the Virgin Money Group	Principal directorships
Glen Moreno (July 1943)	1 January 2015	Chairman and non-executive director of the Issuer and the Bank	Fidelity International Limited; Promotora De Informaciones, S.A.
Jayne-Anne Gadhia, CBE (October 1961)	12 March 2007	CEO and executive director of the Issuer, the Bank and Virgin Money Giving Limited	Business in the Community; The Great Steward of Scotland's Dumfries House Trust
Patrick McCall (November 1958)	22 June 2012	Non-executive director of	Inter City Railways

Name (and month and year of birth)	Date of appointment to Issuer	Business functions within the Virgin Money Group	Principal directorships
1964)		the Issuer	Limited, Vieco 10 Limited, Virgin Active International Ventures Limited, Virgin Rail Group Holdings Limited, Worldvu Satellites Limited, East Coast Main Line Company Limited, Rail Delivery Group Limited
Gordon McCallum (April 1960)	21 January 1998	Non-executive director of the Issuer	Virgin Atlantic Airways Limited, Virgin Atlantic International Limited, Virgin Atlantic Limited, Virgin Atlantic Two Limited, Virgin Financial Services UK Holdings Limited (in liquidation), Virgin Holidays Limited, Virgin Management Consulting (Shanghai) Co. Limited (in liquidation), Virgin Travel Group Limited, Hunter Boot Limited, John Swire & Sons (Green Investments) Limited, John Swire & Sons Limited, Jubilee Film Partnership LLP, Mustique Company Limited and The China Navigation Company PTE. LTD
Norman McLuskie (August 1944)	1 January 2010	Senior Independent non-executive director of the Issuer and the Bank	None
Colin Keogh (July 1953)	27 January 2010	Independent non-executive director of the Issuer and the Bank	Hiscox Ltd; Premium Credit Limited; M & G Group Limited
Marilyn H. Spearing (November 1954)	29 January 2014	Independent non-executive director of the Issuer and the Bank	None
Geeta Gopalan (July 1964)	25 June 2015	Independent non-executive director of the Issuer and the Bank	Vocalink Holdings Limited; Advanced Payment Technology Limited

The business address of the directors is: Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL

MANAGEMENT

Whilst the Issuer and Bank boards of directors are responsible for the strategy and policy of the Virgin Money Group, implementation of policy and day-to-day management of the Bank, as the major operating subsidiary, is delegated to the senior managers (the “**Senior Managers**”):

Name	Age	Position
Jayne-Anne Gadhia	54	Chief Executive Officer
Dave Dyer	60	Chief Financial Officer
Marian Martin	48	Chief Risk Officer
Mark Parker	51	Chief Operating Officer
Hugh Chater	56	Director of Banking
Matthew Elliott	42	People Director
Michele Greene	50	Director of Strategic Development
Andrew Emuss	47	General Counsel
Caroline Marsh	52	Culture Director
Anthony Mooney	45	Director of Financial Services
Timothy Arthur	46	Creative Director

The business address of the Senior Managers is Jubilee House, Gosforth, Newcastle upon Tyne NE3 4PL.

There exist no potential conflicts of interest between (i) any duties owed to the Virgin Money Group by any member of the board of directors or any of the Senior Managers listed above and (ii) their private interests and/or other duties.

STRATEGY

In keeping with the Virgin Money Group's positioning as an effective competitor to the large incumbent banks in the UK retail financial sector and the Virgin Money Group's ambition of making “everyone better off”, the directors of the Issuer and the Bank have agreed a strategy focused on:

1. Continuing strong growth in the Virgin Money Group's core mortgages, savings and credit cards businesses, along with further product extensions over time;
2. Maintaining high asset quality and a low cost of risk through a robust risk management approach; and
3. Delivering strong profitability through a focus on growth, quality and returns.

FINANCIAL PERFORMANCE

Based on the Virgin Money Group's unaudited financial information for the half-year ended 30 June 2016, the Virgin Money Group had total assets of £33,148.0 million, total net loans and advances of £30,864.2 million, total deposits of £28,144.9 million and total shareholder's equity of £1,365.3 million. Underlying profit before tax for the half year ended 30 June 2016 was £101.8 million and on an underlying basis total income grew by 8 per cent to £289.6 million, compared to the second half of 2015, reflecting the increase in mortgage balances. The expected 5 basis point decrease in net interest margin to 1.60 per cent was principally driven by continued strong growth in our mortgage portfolio with new business priced below back book, offset by a further reduction in the cost of retail funding and the higher proportion of credit cards on the balance sheet. Statutory profit before tax was £93.7 million. Virgin Money has sought to grow its balance sheet and revenues to match its operational infrastructure and to focus on cost management. As at 30 June 2016, Virgin Money's cost income ratio was 58.8 per cent. The financial information in this paragraph is extracted from the unaudited half year results at 30 June 2016.

BUSINESS DESCRIPTION

The Virgin Money Group's core business is providing personal financial services to UK consumers. It operates exclusively within the UK with the exception of wholesale funding and liquidity management activities which are undertaken in both the UK and, on a limited basis, in overseas markets. The Virgin Money Group operates through three business segments:

1. Mortgages and savings;
2. Credit cards; and

3. Current accounts, Insurance and Investments.

These business units are supported by central functions, which provide group and back office functions.

Residential mortgage lending

The Virgin Money Group's core lending activity is the provision of residential mortgages to individuals secured on residential properties located in the UK. This lending is principally to borrowers who are owner and occupier of the mortgaged property, with a proportion (18 per cent. as at 30 June 2016) being to borrowers who are landlords in respect of the mortgaged property.

	30 June	31 December		
	2016*	2015	2014	2013
		<i>(£ million)</i>		
Gross loans and advances to customers				
Residential mortgage loans.....	22,788.2	21,060.3	18,759.5	17,205.8
Residential buy-to-let mortgage loans.....	4,895.5	4,401.9	3,135.6	2,371.3
Residential mortgages total.....	27,683.7	25,462.2	21,895.1	19,577.1

* unaudited

The weighted average indexed loan-to-value ratio (“**LTV**”) of the Virgin Money Group's residential mortgage portfolio was 55.4 per cent. as at 30 June 2016 (55.0 per cent. and 55.7 per cent. as at 31 December 2015 and 31 December 2014 respectively). The weighted average indexed LTV of the Virgin Money Group's residential mortgage new lending was 68.6 per cent. as at 30 June 2016 (68.0 per cent. and 66.9 per cent. as at 31 December 2015 and 31 December 2014). Only 1.5 per cent. of the Virgin Money Group's total residential mortgage book at 30 June 2016 had an indexed LTV in excess of 90 per cent., based on value.

Secured impairment allowances increased from £8.7 million to £9.5 million during the first six months of 2016 in line with growth in the portfolio. Provisions as a percentage of impaired loans have increased from 10.3 per cent. as at 31 December 2015 to 11.4 per cent. as at 30 June 2016.

The Virgin Money Group has experienced a historically low loss experience in its residential mortgage portfolio. While gross mortgage balances grew 9 per cent. to £27.7 billion as at 30 June 2016 (compared to £25.5 billion as at 31 December 2015), the Virgin Money Group's residential mortgage asset quality remained strong, with loans over three months in arrears decreasing to 0.16 per cent. of the book as at 30 June 2016 (compared to 0.22 per cent. of the book as at 31 December 2015 and 0.31 per cent. as at 31 December 2014). The Virgin Money Group's arrears performance significantly outperforms the industry, with the Council of Mortgage Lenders industry average of loans more than three months in arrears as a proportion of total book, at 1.04 per cent as at 30 June 2016 (compared to 1.12 per cent. as at 31 December 2015 and 1.33 per cent. as at 31 December 2014).

Retail savings

The Virgin Money Group has a strong and diversified funding platform. Retail deposit balances were £27.1 billion at 30 June 2016 (compared to £25.1 billion at 31 December 2015 and £22.4 billion at 31 December 2014). The Virgin Money Group focuses on maintaining a stable retail deposit base and has developed its loan-to-deposit ratio from 96.4 per cent. as at 31 December 2013 to 109.6 per cent. as at 30 June 2016. As the Virgin Money Group further develops its wholesale funding capabilities, the amount of wholesale funding may rise but will remain relatively low as a proportion of overall funding. Risk appetite has been updated to accommodate a loan-to-deposit ratio of up to 115 per cent., from 110 per cent., giving further flexibility as a result of successful participation in the wholesale funding markets.

The Virgin Money Group offers a range of savings products, including at a fixed interest rate for a fixed term, or a variable interest rate. Unlike some competitors, variable rate customer accounts do not include an introductory bonus rate, which expires after a specified term, on top of the standard variable deposit rate. This is a deliberate policy which is intended, alongside other product features, to encourage a longer-term relationship with the customer, at fair and sustainable rates.

Credit cards

In March 2015, the Bank successfully migrated 675,000 customer accounts from MBNA systems to the new Virgin Money credit card business and platform. The Bank began originating its own credit cards in late 2014 and since then has launched a number of new products to the public.

The Virgin Money Group currently offers a number of Virgin Money branded credit card products designed to meet a range of customer spending, borrowing and debt consolidation needs. The Bank has around 800,000 credit card customers and, as at 30 June 2016, had total credit card balances of £2.1 billion.

Credit cards impaired assets as a percentage of balances have reduced due to improved arrears performance. Gross balances grew from £1.6 billion as at 31 December 2015 to £2.1 billion as at 30 June 2016, an increase of 31 per cent. as a result of new loan growth, yet the gross amount of impaired balances as at 30 June 2016 was £27.6 million compared with £27.4 million as at 31 December 2015, an increase of 0.7 per cent. As a result, the cost of risk fell from 2.2 per cent. (as at 31 December 2015) to 1.7 per cent. (as at 30 June 2016).

Current accounts, Insurance and Investments

Personal current accounts (“PCAs”)

As at 30 June 2016, around 127,000 customers held a Virgin Money PCA and balances have grown to £272.0 million. Balances and income for PCAs were reported in the mortgages and savings business line in the 2013, 2014 and 2015 annual report and accounts.

In July 2014, the Bank launched a current account, the Virgin Money Essential Current Account, which was rolled out nationally during 2015. The product has the features of a “basic bank account”.

Investments

The Virgin Money Group's unit trust management and investment intermediary subsidiaries act as fund managers in providing investment funds for customers to invest in via investment ISAs and stakeholder pensions, as well as directly via unit trusts. Total Virgin Money funds under management are £3.1 billion as at 30 June 2016 (£3.0 billion as at 31 December 2015).

Insurance

The Virgin Money Group offers the following core insurance products; Travel, Home, Motor and Pet, for which it receives a commission for each new and renewing policy sold of the third-party underwritten insurance products that it markets. The Virgin Money Group does not take any underwriting risk in any of its insurance relationships.

For the half year to 30 June 2016, the Virgin Money Group's total income from Current Accounts, Insurance and Investments increased to £20.3 million (2015 half year to 31 December 2015: £18.6 million).

LIQUIDITY AND FUNDING

The Virgin Money Group's treasury function manages the Virgin Money Group's liquidity, funding and balance sheet risks. The Virgin Money Group does not manage the treasury as a profit centre and the treasury is not engaged in trading activities.

Liquidity

As at 30 June 2016, the Virgin Money Group had total liquid assets of £5.0 billion. This included total level 1 assets of £4.3 billion, of which £2.6 billion were held in HM Treasury bills raised through the FLS, £736.9 million were held in Bank of England reserve account and cash, £192.0 million were held in UK Government securities, and £228.5 million were held in supranational securities. Total level 2a and 2b assets and other liquidity resources for the Virgin Money Group were £126.3 million and self-issued Retail Mortgage Backed Securities (“**RMBS**”) amounted to a further £568.6 million. Refer to page 32 of the 2016 Virgin Money Group Half-Year Results for a full analysis of the liquidity portfolio.

Wholesale funding

Funding diversification is achieved by the use of long-term wholesale funding, primarily through the RMBS market. In 2016 and 2015, the Virgin Money Group undertook limited activity in the wholesale funding markets given the strength of its retail deposit flows combined with the use of the FLS. In 2015, the Virgin Money Group established its Global Medium Term Note Programme. The Virgin Money Group continues to diversify its wholesale funding base and, in 2016, extended its reach beyond pound sterling and included euro and U.S. dollar tranches in its RMBS issuances.

Virgin Money has raised funding through the issuance of RMBS as set out in the table below.

Date of issue	Principal amount sold	Issuer
9 July 2012.....	£1,067,500,000	Gosforth Funding 2012-1 plc(1)
19 November 2012.....	£2,934,900,000	Gosforth Funding 2012-2 plc(1)
12 September 2014.....	£1,388,900,000	Gosforth Funding 2014-1 plc(1)
8 June 2015.....	£1,388,900,000	Gosforth Funding 2015-1 plc
25 January 2016.....	£1,553,158,602(2)	Gosforth Funding 2016-1 plc
9 May 2016.....	£1,026,053,995(2)	Gosforth Funding 2016-2plc(1)

Notes:

- (1) These securities were sold primarily to raise funding although certain securities have been retained for contingent funding purposes.
(2) GBP Equivalent

Funding for Lending Scheme

As at 30 June 2016, the Virgin Money Group had FLS drawings, which are off-balance sheet, of £3.2 billion.

Term Funding Scheme

Virgin Money Group intends to access the TFS to support lending growth.

CAPITAL ADEQUACY

The Virgin Money Group's capital position under CRD IV is set out in the table below:

Issuer	30 June	31 December	
	2016*	2015	2014
Common Equity Tier 1 ratio	15.3%	17.5%	19.0%
Tier 1 ratio	17.4%	20.1%	22.0%
Total capital ratio	17.5%	20.2%	22.1%
Leverage ratio	3.8%	4.0%	4.1%

* unaudited

DESCRIPTION OF THE SHARES

Set out below is a description of the principal rights attaching, as at the date of this Information Memorandum, to the ordinary shares that will be issued in the event that the Securities are converted in accordance with their terms.

Share Capital

The share capital of the Issuer currently comprises 444,662,008 ordinary shares of £0.0001 each and 10,052,161 deferred shares of £0.001 each. All the ordinary shares and the deferred shares are fully paid up.

Voting

The ordinary shares rank equally for voting purposes. On a show of hands, every member has one vote. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

The deferred shares do not confer any voting rights.

Income

Each ordinary share ranks equally for any dividend declared.

The Issuer may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests in the profits and may fix the time for payment of such dividend, but no dividend shall exceed the amount recommended by the Board of Directors of the Issuer.

The Board of Directors of the Issuer may pay such interim dividends as appear to the Board of Directors to be justified by the financial position of the Issuer and may also pay any dividend payable at a fixed rate at intervals settled by the Board of Directors whenever the financial position of the Issuer, in the opinion of the Board of Directors, justifies its payment.

Subject only to the entitlement on a return of capital on liquidation described below, the deferred shares do not confer on the holders thereof any entitlement to receive any dividend or distribution or otherwise to any participation in the profits or the assets of the Issuer.

Return of capital

On a return of capital on liquidation or otherwise the holders of any deferred shares shall be entitled to the repayment of the nominal value of the deferred shares held by them (provided that no distribution shall be payable in respect of any deferred shares held by the Issuer as treasury shares pursuant to section 726(3) of the Companies Act 2006). The remaining balance will be distributed to the holders of ordinary shares. Each ordinary share ranks equally for any distribution made on winding-up.

If the Issuer is in liquidation, the liquidator may, with the authority of a special resolution of the Issuer and any other authority required by any applicable statutory provision divide among the members *in specie* the whole or any part of the assets of the Issuer, or vest the whole or any part of the assets in trustees on such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit but no member shall be compelled to accept any assets upon which there is any liability.

Variation of class rights

Whenever the share capital of the Issuer is divided into different classes of shares, all or any of the rights for the time being attached to any class of shares in issue may from time to time (whether or not the Issuer is being wound up) be varied in such manner as those rights may provide or (if no such provision is made) either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the authority of a special resolution passed at a separate general meeting of the holders of those shares.

TAXATION

UNITED KINGDOM

The following applies only to persons who are the beneficial owners of Securities and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs ("HMRC") practice relating only to United Kingdom withholding tax and to United Kingdom stamp duty and stamp duty reserve tax. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Securities or Ordinary Shares. The United Kingdom tax treatment of prospective Securityholders depends on their individual circumstances and may be subject to change in the future. Prospective Securityholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

The statements below are made on the assumption that the Securities will be Additional Tier 1 instruments under Article 52 of Commission Regulation (EEC) No 575/2013 (the "**CRR**") which form, or will have formed, a component of Additional Tier 1 Capital for the purposes of the CRR, and will therefore be "regulatory capital securities" for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the "**Regulations**"). Prospective Securityholders should note that, if the Securities are not such Additional Tier 1 instruments, or if there are 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 Regulations, then this would affect the statements below.

1. Interest on the Securities

Payments of interest on the Securities by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax.

Interest on the Securities which constitutes United Kingdom source income for tax purposes may, as such, be subject to income tax by direct assessment even where paid without withholding. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of a Securityholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Securityholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the Securities are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment. In addition, there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Securityholders.

2. Stamp duty and stamp duty reserve tax ("SDRT")

No United Kingdom stamp duty or SDRT is payable on the issue, transfer or redemption of the Securities, or on the write-down of the Securities on Conversion.

No United Kingdom stamp duty or SDRT will arise on the issue of the Ordinary Shares on a Conversion in accordance with the Conditions. This paragraph 2 does not apply to a Conversion into Relevant Shares (as defined in the Conditions) of an Approved Entity (as defined in the Conditions).

United Kingdom stamp duty or SDRT may be payable in respect of a Conversion Shares Offer.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Noteholders should consult their own tax advisers

regarding how these rules may apply to their investment in the Notes. In the event that any withholding were to be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person would be required to pay additional amounts as a result of the withholding.

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 Securities (including secondary market transactions) or Ordinary Shares 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 Securities or Ordinary Shares 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 Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Joint Bookrunners have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 8 November 2016, jointly and severally agreed to subscribe or procure subscribers for the Securities at the issue price of 100 per cent. of their principal amount less a combined commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities, incurred in connection with the issue of the Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to or for the account or benefit of a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only outside the United States to persons other than U.S. persons as defined in Regulation S in offshore transactions in reliance on, and in compliance with, Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by any dealer (whether or not participating in the offering of the Securities) may violate the registration requirements of the Securities Act.

Each Joint Bookrunner has represented and agreed that it has offered and sold, and will offer and sell, the Securities (a) as part of its distribution at any time and (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, only in accordance with Rule 903 of Regulation S. Accordingly, neither such Joint Bookrunner nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Securities, and such Joint Bookrunner, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Bookrunner has agreed that, at or prior to confirmation of sale of the Securities, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Securities from it during the restricted period a confirmation or notice to substantially the foregoing effect.

United Kingdom

Each Joint Bookrunner has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the Financial Services and Markets Act does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

General

No action has been taken by the Issuer or any of the Joint Bookrunners that would, or is intended to, permit a public offer of the Securities in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Bookrunner has undertaken that it will not, directly or indirectly, offer or sell any Securities or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Securities by it will be made on the same terms.

The Securities 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 PI Rules, 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*” in this Information Memorandum for further information.

GENERAL INFORMATION

Authorisation

1. The issue of the Securities was duly authorised by resolutions of the Board of Directors of the Issuer dated 21 September 2016 and 31 October 2016.

Listing

2. Application has been made to the Luxembourg Stock Exchange for the Securities to be admitted to trading on the Luxembourg Stock Exchange's Euro MTF market and to be listed on the Official List of the Luxembourg Stock Exchange.

Clearing systems

3. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1516312409 and the Common Code is 151631240.

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, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

4. There has been no significant change in the financial or trading position of the Issuer or the Group since 30 September 2016 and no material adverse change in the financial position or prospects of the Issuer or the Group, in each case since 31 December 2015.

Litigation

5. Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

6. KPMG LLP have audited the Issuer's accounts, without qualification, in accordance with IFRS for each of the three financial years ended on 31 December 2015. On 4 May 2016 the appointment of PricewaterhouseCoopers LLP as external auditor for the Virgin Money Group's 2016 audit was approved at the Issuer's annual general meeting.

Documents available

7. Copies of the following documents will be available while the Securities remain outstanding at the registered office of the Issuer and at the office of the Luxembourg Listing Agent during normal business hours on any weekday:
 - the constitutional documents of the Issuer;
 - the audited consolidated financial statements published by the Issuer for the years ended 31 December 2015 and 31 December 2014;
 - the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2016;
 - the Q3 2016 Trading Update of the Issuer;
 - each subsequent set of audited annual financial statements and unaudited interim financial statements (which are currently published on a quarterly basis) published by the Issuer after the date of this Information Memorandum; and
 - this Information Memorandum.

In addition, copies of the Trust Deed (which includes the terms and form of the Securities), and the Agency Agreement, will be available while the Securities remain outstanding at the office of the Luxembourg Listing Agent during normal business hours on any weekday.

A copy of this Information Memorandum will be available within the Investor Relations area of the website of Virgin Money (being, as at the date of this document, at <http://uk.virginmoney.com/virgin/investor-relations/index.jsp>) while the Securities remain outstanding.

Incorporation of Issuer

8. The Issuer is a public limited company incorporated on 4 August 1995 under the Companies Act 1985.

Conflicts of Interest

9. Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In the ordinary course of their business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Where the Joint Bookrunners or their affiliates have a lending relationship with the Issuer and/or its affiliates they may routinely hedge their credit exposure to those entities consistent with their customary risk management policies. Typically, such Joint Bookrunners and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Securities. Any such short positions could adversely affect future trading prices of the Securities. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

DEFINITIONS

The following definitions apply throughout this Information Memorandum unless the context otherwise admits, save that capitalised terms used in the section of this Information Memorandum headed “*Terms and Conditions of the Securities*” have the meanings given therein.

£, 7	Conversion Notice, 76
€, 7	Conversion Price, 11, 76
2014 AT1 Securities, 53	Conversion Shares Offer, 11, 62, 76
2015, 7	Conversion Shares Offer Election Notice, 62, 76
4MLD, 25	Conversion Shares Offer Period, 62, 76
5-year Mid-Swap Rate, 55, 74	Conversion Trigger Notice, 60, 76
5-year Mid-Swap Rate Quotations, 55, 74	Converted, 11
Accountholders, 82	CPUTRs, 31
Accrual Date, 55, 74	CRA, 26
Acquiror, 67, 74	CRD IV Directive, 11
Additional Amounts, 12, 70, 74	CRD IV Regulation, 76
Agency Agreement, 52, 74	CRR, 94
Agent, 74	Current Market Price, 76
Agent Bank, 74	Day-Count Fraction, 55, 76
Alternative Consideration, 74	Denomination, 14
Approved Entity, 68, 75	DGSD2, 27
Assets, 75	Distributable Items, 76
Authorised Signatory, 75	DPRs, 27
Bank, 86	EBA, 28, 29
Banking Act, 27, 44	EEA Regulated Market, 68, 76
Banking Reform Act, 23	Electronic Consent, 83
Banking Reform Act 2013, 44	EMIR, 30
Basel III, 30	Enforcement, 13
BRRD, 24	euro, 7
BRRD, 44	Euroclear, 3
business day, 52	Ex- Date, 65, 76
Business Day, 55, 75	Exchange Date, 82
Calculation Amount, 75	Exempt Newco Scheme, 76
Capital Disqualification Event, 58, 75	Existing Shareholders, 77
capital instruments write-down and conversion power, 44	Extraordinary Distribution, 76
Cash Distribution, 75	Extraordinary Resolution, 76
CCA, 31	FATCA, 94
Certificate, 52, 75	FCA, 17
Clearing systems, 14	First Reset Date, 3, 54, 76
Clearing Systems, 3	FLS, 17
Clearstream, Luxembourg, 3	Form, 14
CMA, 19	FPC, 26, 36
Code, 57, 75	FSB, 29
combined buffer requirement, 36	FSCS, 27
Commission’s Proposal, 95	GDPR, 25
Common Code, 14	Global Certificate, 3
Common Equity Tier 1, 75	Governing law, 14
Common Equity Tier 1 Capital Ratio, 75	Group, 6
Conditions, 10, 75	G-SIIs, 29
Conditions to redemption, 12	HM Treasury, 26
control, 68	holder, 52
Controlling Shareholder, 33	IASB, 21
Conversion, 11, 75	ICSD Business Day, 84
Conversion Date, 75	IFDS, 22
Conversion following a Trigger Event, 11	IFRS, 21
	Independent Adviser, 76

Initial Interest Rate, 54, 77
 Interest, 10
 Interest Amount, 77
 Interest Payment Date, 10, 54, 77
 Interest Period, 55, 77
 Interest Rate, 77
 Investor's Currency, 51
 ISIN, 14
 Issue Date, 3, 77
 Issuer, 1, 3, 10, 52, 77
 Issuer Group, 6, 11, 77
 Joint Bookrunners, 1, 4
 Liabilities, 77
 Listing, 14
 Long-Stop Date, 77
 Major Shareholder, 33
 Mandatory cancellation of interest, 10
 Margin, 55, 77
 Maturity, 12
 Maximum Distributable Amount, 11
 MCD, 17
 MCD Order, 24
 MiFID, 8
 MiFID II/MiFIR, 25
 MMR, 17
 Modification, 13
 MREL, 29
 New Conversion Condition, 68, 77
 New Conversion Condition Effective Date, 68, 77
 New Conversion Price, 68, 77
 Newco, 77
 Newco Scheme, 77
 Nominee, 82
 Non-cumulative interest, 11
 Non-Qualifying Relevant Event, 68, 77
 Notice Cut-off Date, 77
 Notional Preference Share, 78
 Notional Preference Shares, 54
 Optional cancellation of interest, 10
 Optional redemption, 12
 Ordinary Shares, 11, 78
 Parity Tier 1 Instruments, 78
 PARs, 19
 participating Member States, 95
 Paying Agent, 78
 PCAs, 91
 PI Instrument, 8
 PI Rules, 8
 Pillar 1 requirement, 36
 Pillar 2A requirements, 36
 pounds sterling, 7
 PRA, 23
 PRA buffer, 36
 Prevailing Rate, 78
 Principal Paying Agent, 78
 Proceedings, 74, 78
 Protected Liabilities, 46
 PSD2, 25
 Purchase of the Securities, 12
 Qualifying Relevant Event, 68, 78
 RDR, 25
 Recognised Stock Exchange, 78
 record date, 57, 78, 84
 Redemption following a Capital Disqualification
 Event or a Tax Event, 12
 Register, 52, 78
 registered account, 57
 Registrar, 10, 78
 Regulated Market, 68, 78
 Regulations, 94
 Regulatory Approval, 78
 Regulatory Capital Requirements, 78
 Regulatory Preconditions, 12, 78
 Relationship Agreement, 33
 Relevant Date, 79
 Relevant Distribution, 79
 relevant entity, 27
 Relevant Event, 68, 79
 Relevant Event Notice, 67, 79
 relevant persons, 2
 Relevant Shares, 69, 79
 Relevant Year, 79
 Reserved Matter, 79
 Reset Date, 79
 Reset Determination Date, 55, 79
 Reset Interest Rate, 55, 79
 Reset Period, 79
 Reset Reference Bank Rate, 55, 79
 Reset Reference Banks, 56, 79
 Rights on a Winding-Up, 10
 Risk factors, 10
 Risk Weighted Assets, 79
 RMBS, 91
 Scheme of Arrangement, 77, 79
 Screen Page, 56, 79
 SDRT, 94
 Securities, 1, 3, 10, 52, 79
 Securities Act, 1, 4
 Securityholder, 79
 Selling restrictions, 14
 Senior Creditors, 79
 Senior Managers, 89
 Settlement Date, 79
 Settlement Shares Depositary, 80
 Shareholders, 80
 SME, 19
 Solvency Condition, 10, 53, 80
 SRR, 27
 Stabilising Manager, 5
 Status of the Securities, 10
 Subscription Agreement, 96
 Subsidiary, 80
 Substitution of the Issuer, 14
 Supervisory Authority, 80
 Suspension Date, 84
 Tax Event, 59, 80

Taxes, 12, 70, 80
TFS, 17
Tier 1 Capital, 80
Tier 2 Capital, 80
TLAC, 29
Trading Day, 80
Trigger Event, 11, 80
Trust Deed, 52, 80
Trustee, 10, 52, 80
TSYS, 22
U.S. dollars, 7
UK, 8, 16
UK bail-in power, 44
UTCCR, 26
VEL, 33
Virgin Money, 6
Virgin Money Trade Mark Licence Agreement, 33
VMUTM, 22
VWAP, 81
Winding-Up, 81
Withholding tax and Additional Amounts, 12

THE ISSUER

Virgin Money Holdings (UK) plc

Jubilee House

Gosforth

Newcastle upon Tyne NE3 4PL

TRUSTEE

Citicorp Trustee Company Limited

Citigroup Centre

Canada Square

Canary Wharf

London E14 5LB

REGISTRAR AND PRINCIPAL PAYING AGENT

Citibank, N.A., London Branch

Citigroup Centre

Canada Square

Canary Wharf

London E14 5LB

LEGAL ADVISERS

To the Issuer as to English law

Allen & Overy LLP

One Bishops Square

London E1 6AD

To the Joint Bookrunners and the Trustee as to English law

Clifford Chance LLP

10 Upper Bank Street

London E14 5JJ

AUDITORS

To the Issuer

PricewaterhouseCoopers LLP

7 More London Riverside

London SE1 2RT

LUXEMBOURG LISTING AGENT

BNP Paribas Securities Services, Luxembourg Branch

60, avenue J.F. Kennedy

L-1855

Luxembourg

Sole Structuring Advisor and Joint Bookrunner

Morgan Stanley & Co International plc

25 Cabot Square

Canary Wharf

London E14 4QA

Joint Bookrunners

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB