RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The securities discussed in the attached Preliminary Information Memorandum (the "**Securities**") of OneSavings Bank plc (the "**Issuer**") 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 U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**").

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

(i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the 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.

Barclays Bank PLC (the "**Sole Bookrunner**") is required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Securities (or a beneficial interest in such Securities) from the Issuer and/or the Sole Bookrunner each prospective investor represents, warrants, agrees with and undertakes to the Issuer and the Sole Bookrunner 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 sell or offer Securities (or any beneficial interest therein) to retail clients in the EEA or communicate (including the distribution of any marketing or offer or other relevant documents) 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 interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the applicable MR Rules by any person and/or (ii) in relation to any sale or offer to sell Securities (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Securities (or such beneficial interests therein) 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;

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 (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

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

IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES 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: **You must read the following before continuing**. The following applies to the following Preliminary Information Memorandum (the "**Information Memorandum**", which term, in this disclaimer, means the following Information Memorandum in preliminary or final form). You must read this disclaimer 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 from time to time, each 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. THE 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 THE INFORMATION MEMORANDUM 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 e-mail and accessing the Information Memorandum, you shall be deemed to have represented to OneSavings Bank plc (the "**Issuer**") and to Barclays Bank PLC (the "**Sole Bookrunner**") that:

i. 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;

ii. the electronic mail address to which the Information Memorandum has been delivered is not located in the United States of America, its territories and its possessions;

iii. if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the "**Order**") or a certified high net worth individual within Article 48 of the Order; and

iv. you consent to delivery of the 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 Sole Bookrunner or 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, electronically or otherwise, to any other person. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature. 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. Under no circumstances shall the 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 the Sole Bookrunner that would, or is intended to, permit a public offering of the Securities, or possession or distribution of the Information Memorandum 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.

INFORMATION MEMORANDUM dated 23 May 2017

OneSavings Bank plc

(incorporated under the laws of England and Wales)

£60,000,000 Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities

Issue price: 100 per cent.

The £60,000,000 Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities (the "**Securities**") will be issued by OneSavings Bank plc (the "**Issuer**") on or about 25 May 2017 (the "**Issue Date**"). The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 25 May 2022 (the "**First Reset Date**"), at a rate of 9.125 per cent. per annum and thereafter at the relevant Reset Interest Rate as provided in Condition 6. Interest will be payable on the Securities semi-annually in arrear on each Interest Payment Date, commencing on 25 November 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 6(a) or 9(a)(i) 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 4(a)). 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 at any time, the Securities will be converted into Ordinary Shares of the Issuer at the Conversion Price, all as more fully described in Condition 9.

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 Regulatory Approval, 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 if a Tax Event (as defined in Condition 8(d)) or a Capital Disqualification Event (as defined in Condition 8(c)) has occurred and is continuing, or (b) repurchase the Securities at any time in accordance with the then prevailing Regulatory Capital Requirements.

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 Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the "PI Rules", 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. Potential investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 3 to 5 of this Information Memorandum for further information. Potential investors should read the whole of this document, in particular the "*Risk Factors*" on pages 16 to 55.

Application has been made to the Irish Stock Exchange (the "**ISE**") for approval of this Information Memorandum as listing particulars. Application has been made to the ISE for the Securities to be admitted to the Official List and to trading on the Global Exchange Market ("**GEM**"), which is the exchange regulated market of the ISE. The GEM is not a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) ("**MiFID**").

The Securities will be issued in registered form and available and transferable in minimum denominations 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 depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**" and, together with Euroclear, the "**Clearing Systems**").

Potential investors should read the whole of this document, in particular the "*Risk Factors*" **set out on pages 16 to 55.**

Sole Bookrunner and Structuring Adviser

Barclays

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 "*Documents Incorporated by Reference*"). This Information Memorandum should be read and construed on the basis that such documents are incorporated 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.

Neither Barclays Bank PLC (the "**Sole Bookrunner**") nor any of its 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.

As further described in the Conditions, if a Trigger Event occurs, the Securities will be converted in whole and not in part on the Conversion Date as provided in Condition 9, at which point all of the Issuer's obligations under the Securities shall be irrevocably discharged and satisfied by the Issuer's issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date. With effect from 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 be reduced to, and at all times thereafter equal, zero until the Securities are cancelled. Accordingly, Securityholders should be aware that they may lose their entire investment in the Securities.

Neither the Trustee nor any Agent (as defined in the Conditions) shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Trigger Event or any consequent cancellation of the Securities or write-down of any claims in respect thereof, and neither the Trustee nor the Agents shall be responsible for any calculation or determination or the verification of any calculation or determination in connection with the same.

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 is 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.

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 cancellation of interest and/or conversion of the Securities into ordinary shares of the Issuer 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.

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 U.K. 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 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 applicable PI Rules.

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

(a) it is not a retail client in the EEA (as defined in the applicable PI Rules);

(b) whether or not it is subject to the PI Rules, it will not:

(i) sell or offer the Securities (or any beneficial interest therein) to retail clients in the EEA, or

(ii) either:

(A) do anything (including the distribution of this Information Memorandum) that would or might result in the buying of the Securities or the holding of a beneficial interest in the Securities by a retail client in the EEA (in each case within the meaning of the PI Rules), 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 interests 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 PI Rules by any person and/or (ii) in relation to any sale or offer to sell Securities (or any beneficial interests 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 interests 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 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

(c) 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 (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Securities (or any beneficial interests therein) from the Issuer and/or the Sole Bookrunner, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client. Investment in the Securities may be considered by eligible investors who are in a position to give the above representations, warranties and undertakings and 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.

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, BARCLAYS BANK 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 ACTION 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

This document contains certain "forward-looking statements". Statements that are not historical facts, including statements about OneSavings Bank's and/or its directors' and/or management's beliefs and expectations are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "plans", "aims", "potential", "will", "would", "could", "considered", "likely", "estimate" and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond OneSavings Bank's control and all of which are based on OneSavings Bank's current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause OneSavings Bank's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding OneSavings Bank's present and future business strategies and the environment in which OneSavings Bank will operate in the future. These forward-looking statements speak only as at the date of this document. Except as required by applicable law or regulation, the Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OneSavings Bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

In this Information Memorandum, references to "**OneSavings Bank**" and to the "**Group**" are to OneSavings Bank plc and its subsidiaries, taken as a whole.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

FINANCIAL STATEMENTS

Prospective investors should consult their own professional advisers to gain an understanding of the financial information contained in this Information Memorandum. An overview of the basis for presentation of financial information in this Information Memorandum is set out below.

Financial statements

The financial statements included in this Information Memorandum comprise:

- audited consolidated financial statements for the Issuer as at and for the year ended 31 December 2015 (together with comparable financial statements as at and for the year ended 31 December 2014) (the "**2015 Financial Statements**"); and

- audited consolidated financial statements for the Issuer as at and for the year ended 31 December 2016 (together with comparable financial statements as at and for the year ended 31 December 2015) (the "**2016 Financial Statements**").

Each of the 2015 Financial Statements and the 2016 Financial Statements (together, the "**Financial Statements**") have been audited by KPMG LLP, independent auditors, in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board in the United Kingdom as stated in the unqualified audit reports included in the Financial Statements. The Financial Statements have been prepared in accordance with IFRS as adopted by the EU.

Prospective investors should be aware that IFRS and generally accepted accounting procedures in the United Kingdom ("**UK GAAP**") differ from each other in certain significant respects. The Financial Statements have not been reconciled to UK GAAP. The Issuer has not prepared any financial information in accordance with UK GAAP nor a reconciliation or quantification of differences between IFRS and UK GAAP. Investors are encouraged to contact their own financial advisers if they have any questions with respect to UK GAAP.

CURRENCIES AND OTHER DEFINED TERMS

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

- "**U.S. dollars**" or "**$**" are to the lawful currency of the United States;

- "**euros**" 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. OneSavings Bank's functional currency is pounds sterling and OneSavings Bank prepares its financial statements in pounds sterling.

Any reference in this Information Memorandum to "**2015**", "**2016**" 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 OneSavings Bank's business and the industry in which it operates and competes, some of which OneSavings Bank has obtained from third party sources. OneSavings Bank 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 OneSavings Bank market share included in this Information Memorandum is referred to as having been estimated. All such estimates have been made by OneSavings Bank 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 OneSavings Bank'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. 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 such source, no facts have been omitted which would render the reproduced information inaccurate or misleading. 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 OneSavings Bank's own information.

NO INCORPORATION OF WEBSITE INFORMATION

OneSavings Bank's website is www.osb.co.uk. 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.

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.

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OVERVIEW OF THE SECURITIES

*The following overview provides an overview of the business of OneSavings Bank and 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".*

Principal features of the Securities

Issuer	OneSavings Bank plc
Trustee	U.S. Bank Trustees Limited
Registrar	Elavon Financial Services DAC
Securities	£60,000,000 of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible 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 "*Risk Factors*".
Status of the Securities	The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu*, 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 5 and 12, 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 a Winding-Up of the Issuer, or (in relation to the cash component of any Alternative Consideration) where Condition 9(c)(vii) applies, all payments in respect of or arising from (including any damages awarded for breach of any obligations under) the Securities are, in addition to the right or obligation of the Issuer to cancel payments under Condition 6(a) and Condition 9(a)(i), conditional upon the Issuer being solvent (within the meaning given in Condition 4(a)) 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	The Securities bear interest on their principal amount: (a) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 9.125 per cent. per annum; and (b) thereafter, at the relevant Reset Interest Rate (as described in Condition 6(d)), in each case payable, subject to cancellation as described below, semi-annually in arrear on 25 May and 25 November in each year (each, an "**Interest Payment Date**"), commencing 25 November 2017.

Optional cancellation of interest

The Issuer may elect at its full discretion to cancel (in whole or in part) the Interest Amount otherwise scheduled to be paid on any Interest Payment Date. See Condition 6(a) for further information.

Mandatory cancellation of interest

Further, to the extent required to do so under then prevailing Regulatory Capital Requirements, the Issuer will cancel any Interest Amounts otherwise scheduled to be paid on an Interest Payment Date to the extent that such Interest Amount (together with any Additional Amounts payable, if applicable, with respect thereto), 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 (as defined in the CRD IV Regulation) 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 Distributable Items of the Issuer as at such Interest Payment Date.

See Condition 6(a) for further information.

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 any accrued and unpaid interest up to (and including) the Conversion Date (see "*Conversion following a Trigger Event*" below).

Non-cumulative interest

The cancellation of any Interest Amount (or any part thereof) in accordance with the Conditions as described above shall not constitute a default for any purpose on the part of the Issuer. Interest payments under the Securities are non-cumulative and holders of the Securities shall have no right thereto whether on a Winding-Up or otherwise.

Conversion following a Trigger Event

If, at any time, the Common Equity Tier 1 Capital Ratio of the Issuer falls below 7.00 per cent. (a "**Trigger Event**"), the Issuer shall immediately notify the Supervisory Authority of the occurrence of the Trigger Event and:

(a) any accrued and unpaid interest up to (and including) the Conversion Date (whether or not such interest has become due for payment) shall be automatically cancelled; and

(b) 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 Trigger Event, the Issuer shall issue, by way of conversion of the Securities (as described in Condition 9(b)), on the Conversion Date to the Settlement Shares Depositary to be held for the Securityholders such number of ordinary shares in the Issuer ("**Ordinary Shares**") as is equal to the aggregate principal amount of the Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares, and each Security shall, subject to and as provided in Condition 9, thereby be irrevocably discharged and satisfied.

See Condition 9 for further information.

The "**Conversion Price**" means, at any time, the conversion price of £3.199 as most recently adjusted (if at all) pursuant to Condition 9(d).

No 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 8).

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 any Accrued Interest.

Redemption following a Capital Disqualification Event or a Tax Event

If at any time a Capital Disqualification Event (as defined in Condition 8(c)) or a Tax Event (as defined in Condition 8(d)) has occurred and is continuing, 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 their principal amount together with any Accrued Interest.

Conditions to redemption

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

(a) the Issuer 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; or

(b) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer 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 the Solvency Condition and 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 of interest 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 customary exceptions) pay such additional amounts ("**Additional Amounts**") in respect of the payment of any interest (but not principal) on the Securities as may be necessary in order that the net amounts 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 such withholding or deduction.

Payments in respect of principal and interest on the Securities will be made subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 or otherwise imposed pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the preceding paragraph) any law implementing an intergovernmental approach thereto.

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 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 winding up of the Issuer (whether or not instituted by the Trustee) and shall have such claim as is set out in Condition 5.

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 or the Conditions (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) 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 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.

See Condition 12 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 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 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 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.

Any modification or waiver of the Conditions and the Trust Deed is subject to the Issuer obtaining Regulatory Approval.

Substitution of the Issuer	The Trustee may, without the consent of the Securityholders but subject to Regulatory Approval, agree with the Issuer to (i) any substitution as provided in and for the purposes of Condition 15(e) or (ii) the substitution of the Issuer's successor in business (as defined in Condition 21) in place of the Issuer (or of any previously substituted company) as principal debtor under the Securities and the Trust Deed, subject to: (a) in the case of (ii) only, the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Securityholders; and (b) in the case of (i) and (ii), 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 depositary for the Clearing Systems.
Denominations	£200,000 and integral multiples of £1,000 in excess thereof.
Clearing systems	Euroclear and Clearstream, Luxembourg.
Listing	Application has been made to the Irish Stock Exchange for the Securities to be admitted to trading on the Irish Stock Exchange's Global Exchange Market and to be listed on the Official List of the Irish 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 them, are governed by, and will be construed in accordance with, English law.
ISIN	XS1617418501
Common Code	161741850

DOCUMENTS INCORPORATED BY REFERENCE

This Information Memorandum is to be read in conjunction with all documents which are incorporated by reference herein.

The following documents, which have been previously filed with the Irish Stock Exchange, shall be incorporated in and form part of this Information Memorandum:

(a) the audited consolidated financial statements for the Issuer as at and for the year ended 31 December 2015, together with the audit report thereon, appearing on pages 85 to 136 (inclusive) of the Issuer's annual report and financial statements for the year ended 31 December 2015 (the "**2015 Annual Report**"); and

(b) the audited consolidated financial statements for the Issuer as at and for the year ended 31 December 2016, together with the audit report thereon, appearing on pages appearing on pages 94 to 158 (inclusive) of the Issuer's annual report and financial statements for the year ended 31 December 2016 (the "**2016 Annual Report**").

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

Copies of documents incorporated by reference in this Information Memorandum may be inspected during normal business hours at the office of the Principal Paying Agent during normal business hours on any weekday and may be obtained (without charge) from the Investor Relations area of the website of the Issuer (as at the date of this Information Memorandum at www.osb.co.uk) for as long as the Securities remain outstanding.

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 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 THE GROUP'S BUSINESS

The Group's business and financial performance have been and will continue to be affected by general economic conditions in the UK, Jersey and Guernsey, and adverse developments in the UK or global financial markets, in particular following the UK's vote to leave the European Union and the invocation by the UK Government of Article 50 of the Treaty on the European Union on 29 March 2017, could have a detrimental impact on its earnings and profitability

The Group's business is directly and indirectly affected by general economic conditions in the UK, Jersey and Guernsey and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. In addition, future political developments in the UK, including but not limited to the UK's vote to leave the European Union ("**Brexit**") and/or changes in government structure and policies, could adversely affect the fiscal, monetary and regulatory landscape which affects the Group's performance.

Brexit, followed by the invocation by the UK Government of Article 50 on the Treaty for the European Union on 29 March 2017, has led to significant uncertainty over the macroeconomic outlook for the country. If the UK's economic conditions weaken, there is a fall in the level of customers' disposable income, financial markets continue to exhibit uncertainty and/or volatility or political developments affect the UK fiscal, monetary or regulatory landscape, the Group's business, financial condition and/or prospects could be adversely affected. 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. The Group does not have direct exposure to the EU outside the UK; however, its business is exposed to a potential downturn in the UK economy, in particular a slowdown in the housing market that could impact house prices and demand for mortgages. Furthermore, a downturn in the UK economy could also lead to a rise in unemployment and/or interest rates that could impact customer affordability of the Group's products.

Between 2007 and 2017, there has been significant volatility in financial markets around the world. The financial turbulence in 2008 and its after-effects on the wider economy led to generally more difficult earnings conditions for the financial sector and, at the time, resulted in the failures of a number of financial institutions in the United States, the United Kingdom and elsewhere in Europe and triggered unprecedented action by governmental authorities, regulators

and central banks around the world. A number of countries in Europe, such as Greece, Ireland, Italy, Portugal and Spain (the "**GIIPS countries**"), have been particularly affected by the difficult financial and economic conditions since 2008 and are struggling with large sovereign debts and/or public budget deficits. These factors, together with weak economies and disruption in the capital markets, necessitated a range of international rescue packages and other assistance, including for Greece and Ireland in 2010, Portugal in 2011, Greece and Spain in 2012 and, most recently, Cyprus in 2013. The perceived risk of default on the sovereign debt of certain of the GIIPS countries intensified in the latter part of 2011 and into 2012, particularly in relation to Greece and more so since the change of government in late 2014. This raised concern about the contagion effect such a default would have on other EU economies as well as the ongoing viability of the euro currency and the European Monetary Union ("**EMU**").

These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in these economies adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, asset values, the liquidity of the global financial markets and market interest rates, which have had, and may continue to have, a material adverse effect on the Group's business, operating results, financial condition and prospects.

From the beginning of 2013 through to early 2016, market conditions generally stabilised, and the UK had seen a subdued economic recovery, but the UK's referendum vote to leave the European Union followed by the invocation by the UK Government of Article 50 on the Treaty of European Union on 29 March 2017, and Donald Trump's win in the US presidential elections have created further uncertainty around the UK economy and financial markets worldwide. Forecasts suggest that the UK's growth looks likely to average 2 per cent. in 2016 with forecast growth slowing down to around 1.2 per cent. in 2017 driven by a decline in business investment[1]. The impact of Brexit on the UK's trade prospects is currently unknown and there is a risk that Brexit could result in lower UK exports, leading to a number of negative impacts on the UK economy such as a rise in unemployment.

There has been an increase in activity in the UK housing market since the middle of 2013 accompanied by varying levels of house price growth. While the rate of growth of house prices increased throughout 2013 and 2014, it stabilised in 2015 and the rate of increase fell in 2016. While house prices may continue to grow, there is a risk that house price growth will continue to accelerate faster than earnings growth, stretching affordability and leaving households more vulnerable to shocks, such as unexpectedly early or large increases in interest rates that could ultimately lead to higher retail loan losses. Alternatively, if house prices were to begin to fall, there would likely be an increase in loan impairment charges as the value of the security underlying the Group's loans reduces.

The Group's most significant exposure is to the residential and Buy-to-Let/small and medium enterprise ("**SME**") mortgage market, primarily in London and South East England. Any economic downturn which has an impact on these markets or in these areas of the UK could have a disproportionate impact on the Group's financial condition and results of operations. There is potential for activity and prices to decline should the labour market situation deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy.

Continued weak growth or deterioration in economic conditions in the UK could also create uncertainty in relation to the cash flows of the Group's Buy-to-Let/SME borrowers and in relation to the value of their collateral, leading to increased impairment provisions against the Group's Buy-to-Let/SME loans.

Declining UK economic and market conditions could negatively affect the underlying credit quality of certain of the loans in the Group's Residential Mortgage and Buy-to-Let/SME portfolios and could lead to increased levels of loan loss provisions and repossession of the collateral held by the Group, which could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

[1] PwC UK Economic Outlook, November 2016

The Group's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low

The Bank of England reacted to the threat of Brexit by reducing, in August 2016, its base rate to a historic low of 0.25 per cent., having previously been at 0.5 per cent. since March 2009, and as high as 5.75 per cent. in December 2007. In the thirty years preceding December 2007, the lowest level of the base rate was 3.5 per cent. Wider spreads on new mortgage pricing may be outweighed by reduced interest income on the base rate-linked and LIBOR-linked portions of the Group's loan back book as a result of such historically low interest rates.

Recent trends in mortgage and savings pricing (which are driven, in part, by the Bank of England's liquidity facilities such as the Funding for Lending Scheme (the "**FLS**") and the Term Funding Scheme (the "**TFS**")) have partially offset the impact of continuing low base rates. The Group's business and financial performance and net interest margin may continue to be affected by the continued low interest rate environment.

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 the Group's operations, business, results, financial condition and/or prospects 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.

Rising interest rates could result in increased loan losses which would adversely affect the Group's financial and operational performance

Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the base rate or the London Interbank Offered Rate (or LIBOR) or borrowers who come to the end of an incentive period in an environment of higher market rates and who may have become accustomed to the current low interest rate environment. The large majority of the Group's mortgages and loans by value are currently subject to changes in interest rates or are reverting to variable rates after their current fixed-rate incentive period expires.

Accordingly, borrowers with a loan that is subject to a variable rate of interest or where the interest rate adjusts following an initial fixed rate or low introductory rate are exposed to increased monthly payments and when their mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates and this could lead to an increase in arrears in the Group's Residential Mortgage and Buy-to-Let/SME portfolios as well as an increase in the Group's Residential Mortgage and Buy-to-Let/SME impairment charges.

If rising interest rates cause borrowers to be unable to repay their mortgage loans, that could ultimately lead to a correction in house prices and higher loan losses. Other factors could cause house prices to fall in the regions where the Group is exposed, such as changes to the tax regime in Jersey and/or Guernsey. If UK house prices were to fall generally or in the South East of the UK, Jersey or Guernsey or other regions to which the Group has significant exposure, the Group's mortgage impairment charges and loan loss provisions could increase as the value of the security underlying its mortgage declines, which in turn would have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

Since the financial crisis, many borrowers have benefited from a combination of low interest rates, stable or growing house prices and, for Buy-to-Let customers, rising rents as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. If interest rates were to rise, the credit performance of the Group's Buy-to-Let/SME portfolio may deteriorate and loan loss provisions may increase, which in turn could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail savings or its access to wholesale funding markets becomes limited and/or becomes more expensive, and this may have an adverse effect on the Group's business and profitability

Financial institutions such as the Group are subject to liquidity risk as an inherent part of their business. Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or of the cost of raising liquid funds becoming too expensive.

The Group's primary source of funds is through retail savings and, to date, the Group has raised limited funds in the wholesale funding market. If access to liquidity should be constrained for a prolonged period of time, the Group's cost of funding would increase as competition for retail savings would intensify and the cost of accessing the wholesale markets would rise. This would have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

Retail savers are a significant source of funding for the Group. The on-going availability of retail savings funding is dependent on a variety of factors outside the Group's control, such as general economic conditions, market volatility, the availability and extent of deposit guarantees and the confidence of retail savers in the UK banking system and in the Group in particular. Deterioration of these or other factors could lead to a reduction in the Group's ability to access retail savings funding on appropriate terms in the future. Given the relative size of the Group's retail savings base, it is particularly exposed to any serious loss of confidence by its retail savers which results in significant withdrawals of deposits/savings. As the Group increases the proportion of its customers with online accounts in the medium term, such a liquidity event could occur quickly.

In addition to its core retail savings base, the Group has sourced a limited amount of wholesale funding, including the FLS and, in addition, in November 2016, the Group was accepted into the TFS. The Group maintains a range of funding programmes, including a securitisation and access to the FLS and the TFS. The availability of wholesale funding depends on a variety of factors including market conditions, the general availability of credit (in particular to the financial services industry), the volume of trading activities, and funding markets' assessment of the Group's credit strength. These and other factors may limit the Group's ability to raise funding in wholesale markets which could result in an increase in the Group's cost of funding or have other adverse effects on the Group's business, financial performance or future prospects.

Extreme market disruptions, such as the severe dislocation experienced in the funding and credit markets following the onset of the global financial crisis, could result in a prolonged and severe restriction on the Group's access to liquidity (including to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence resulting in high levels of withdrawals from the Group's retail savings base, which could affect the Group's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances, the Group 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 Group's solvency.

Any significant reduction or withdrawal of the FLS or the TFS could increase competition for other sources of funding which could adversely affect the Group

The Government has provided significant liquidity and credit support to UK financial institutions since April 2008 to ensure the stability of the financial system.

On 12 July 2012, the Bank of England and HM Treasury introduced the FLS. The aim of the scheme was to incentivise banks and building societies to lend to UK households and non-financial companies.

Under the FLS, participating financial institutions were, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. On 24 April 2013, the scheme was extended for a further 12 months, with drawings permitted until the end of January 2015 and funding under the scheme running until January 2019 with an increased focus on lending to SMEs and reduced focus on lending to households. Further changes were made to the terms of the extension to the FLS on 2 December 2014 and again on 30 November 2015 with the "Extended Drawdown Period" running up to 31 January 2018.

The Group received permission to participate in the FLS in January 2014 and, during the first quarter of 2014, had drawn down approximately £98 million of treasury bills under the scheme in return for posting sovereign bonds as collateral. In February 2015, the Group pre-positioned pools of mortgage collateral with the Bank of England and by 31 December 2016 had total drawings of £524.6 million of funding from the scheme to help fund the Group's loan book growth, down from a peak of more than £600 million in October 2016.

On 4 August 2016, the Bank of England announced the TFS providing term funding to banks at rates close to the Bank of England's Bank Rate providing a cost effective source of funding in the form of central bank reserves to support additional lending to the real economy by allowing participants to borrow reserves in exchange for eligible collateral during a defined drawdown window. Access to the TFS is directly linked to an institution's net lending to the real economy. The Bank charges interest on TFS transactions equal to the Bank of England's Bank Rate plus a scheme fee. The fee will be determined at the end of a period, based on the amount of net lending made by the participant over the period. If net lending over the period as a whole is positive, the fee will be zero basis points per annum. The participant's borrowing allowance for TFS is set at 5 per cent. of base stock of applicable loans of such participant plus an amount equal to the most recent net lending amount of that participant. In November 2016, the Group was accepted into the TFS and expects to transition out of the FLS into this new facility over the course of 2017, given the more attractive terms. As at 31 December 2016, TFS drawings were £101.0 million, rising to £351.1 million at 31 March 2017. The availability of government support for UK financial institutions, to the extent that it provides access to lower cost and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets.

By participating and posting mortgage collateral, the Group has access to funding that is lower cost than accessing retail savers and reduces the need to fund itself in the wholesale markets. There is a risk that if it ceases to remain sufficiently active in the savings market its access to such funding could be prejudiced in the future when government support is reduced or no longer available to it. Any significant reduction or withdrawal of government support may increase funding costs for those institutions (including the Group) which have utilised that support. In addition, financial institutions which have relied significantly on government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Group also expects to face increased competition for funding, particularly retail funding on which it is reliant. This competition could further increase its funding costs and so have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

Recent legislative and regulatory changes and future legislative and regulatory changes are imposing or could impose operational restrictions on the Group, require the Group to raise further capital, increase the Group's expenses and/or otherwise adversely affect its business, results, financial condition or prospects

The Group conducts its business subject to on-going regulation by the FCA and the Prudential Regulation Authority ("**PRA**"). The regulatory regime requires the Group to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities. This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors.

In particular, there has been an increased focus by UK regulators and the Chancellor of the Exchequer on the Buy-to-Let market and private rented sectors, leading to an enhanced risk of regulatory change at short notice that could affect the sector as a result of the Bank of England's July 2015 Financial Stability Report, which highlighted Buy-to-Let lending as a potential risk to financial stability. In addition, the Chancellor of the Exchequer announced in 2015 a change to mortgage interest relief for individual landlords which could affect the demand for Buy-to-Let mortgages. Landlords who have chosen to borrow in their own name had until 2017 to plan any changes to their portfolios in advance of the tax changes beginning to take effect; furthermore the tax changes will be gradually implemented over a four year period allowing landlords to adapt to these changes. The PRA issued Supervisory Statement SS13/16 (*"Underwriting standards for buy-to-let mortgage contracts"*) on Buy-to-Let underwriting standards in September 2016, requiring lenders to adopt more stringent affordability assessments taking such costs into account when assessing the affordability of Buy-to-Let mortgage contracts from 1 January 2017.

From September 2017, further market-wide measures to strengthen underwriting standards are to be implemented with new regulatory requirements for assessment of landlords with four or more mortgaged properties. The Group specialises in, and targets, the professional landlord segment of the private rental sector, many of whom run their businesses through limited companies, or utilise efficient re-investment strategies to manage their affairs

There is also 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 believe the Group does not meet threshold conditions applicable to it, it can remove or restrict the Group's permissions or require a restructuring of its business.

More specifically, and as an example, the income targets within the Group's strategic plan rely in part on the delivery of existing and new products such as new savings accounts or new specialist mortgage or lending products. There is a risk that future regulation may change the nature of product charging and/or sales in a way that has an impact on the Group's ability to deliver the planned income, that its chosen business model proves to be inappropriate or that customers are not attracted by the products and services on offer. In addition, it is possible that governments and policy committees (such as the Financial Policy Committee of the Bank of England (the "**FPC**")) may in the future seek to implement policies such as loan-to-value ("**LTV**") caps and rental reforms in the UK with the aim of managing house price growth and rent increases. Any such measures could negatively affect the sub-sectors in which the Group operates, and consequently could cause a reduction in the number of mortgages which the Group underwrites. Any such reduction could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

Regulators and other 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 the Group, require the Group to raise further capital, increase the Group's expenses and/or otherwise adversely affect its business results, financial condition or prospects. Future changes in regulation, and/or fiscal or other policies, are unpredictable and beyond the Group'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 as a result of the recommendations made by the Independent Commission on Banking (the "**ICB**") and, in particular, the ICB's recommendations for ring-fencing requirements for larger banks. 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. The Banking Reform Act also takes account of the recommendations of the Parliamentary Commission on Banking Standards and, in particular, its final report published in June 2013 ("*Changing Banking for Good*"). Among other things, this included a new banking standards regime governing the conduct of bank staff, the introduction of a new criminal offence for reckless misconduct for senior bank staff, the introduction of a "Senior Managers Regime", a "Certification Regime" and a "Banking Standards Rule" to improve competition in the banking sector and a ring-fence around retail deposits held by large UK banks with the aim of separating certain core banking services critical to individuals and small and medium-sized enterprises from wholesale and investment banking services. Only certain provisions of the Banking Reform Act have come into force to date and the other aspects of the reforms will come into force on a day or days appointed in commencement orders during the implementation process up until 2019. Therefore, depending on the final form of the law, it may have a substantial impact on banks and building societies in the UK generally, including the Group;

- the Bank Recovery and Resolution Directive (2014/59/EU) (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 confers on resolution authorities significant powers to recover and resolve credit institutions and investment firms which are failing or likely to fail, including the power to write-down and convert capital instruments and to bail-in certain liabilities. See "*Regulatory action in the event a bank or investment firm in the Group is failing or is likely to fail could materially adversely affect the value of the Securities*" below;

- the PRA published new underwriting standards on Buy-to-Let lending in September 2016 that came into effect in January 2017. From September 2017, further market-wide measures to strengthen underwriting standards are to be implemented with new regulatory requirements for assessment of landlords with four or more mortgaged properties. 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 SS13/16 ("*Underwriting standards for buy-to-let mortgage contracts*") and Policy Statement PS28/16 ("*Underwriting standards for buy-to-let mortgage contracts*") 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 the Capital Requirements Regulation (the "**CRR**") which reduces the capital requirements on loans to small and medium-sized enterprises by around 25 per cent. The Group has implemented a series of changes to lending criteria and affordability testing in preparation for the new requirements;

- the Mortgage Credit Directive 2014/17/EU (the "**MCD**") asserts that EU Member States must require creditors, credit intermediaries or appointed representatives, among other things, to provide consumers with certain personalised pre-contractual information and to adhere to business conduct rules. The MCD 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 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 applies equally to first and second charge mortgages, which has resulted in the regulation by the FCA of second charge mortgages being part of its mortgage regime rather than its consumer credit regime. 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;

- the General Data Protection Regulation (EU) 2016/679 (the "**GDPR**") was adopted in April 2016 and, following a two year transition period, will come into force on 25 May 2018. The GDPR will be directly effective in EU Member States and is intended to modernise, strengthen and unify data protection within the EU. GDPR represents a major overhaul of data protection compliance and governance practices and the Group has accordingly initiated a GDPR change programme. Achieving compliance with the requirements of the GDPR is likely to lead to additional costs for the Group in the conduct of its business and operations. Potential implications of non-compliance with GDPR include actions brought by individuals and regulatory fines of up to €20 million or 4 per cent. of annual turnover;

- the Fourth EU Money Laundering Directive (EU) 2015/849 (the "**4MLD**") replaces the Third EU Money Laundering Directive (2005/60/EC) 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 4MLD signals a large shift and reinforces the risk based approach across all anti-money laundering and counter-terrorist finance compliance programmes, such as the introduction of customer risk assessments for all customers, enhanced due diligence with increased monitoring and identifying beneficial ownership;

- in 2014, the PRA published rules implementing the FPC's 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. 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 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 includes the Issuer) 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 the Group's mortgage products or have a material adverse impact on the Group's ability to meet its strategic lending targets;

- in April 2017, the FCA published Finalised Guidance FG17/4 (*"The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations"*) on the practice of auto-capitalising arrears on regulated mortgage contracts. Under the requirements of the Finalised Guidance, the FCA expects firms to stop this practice and remediate customers who have suffered harm as a result. It also sets out a remediation framework, which firms may use when providing remediation to, and communicating with, affected customers. It is for firms to determine their own approach to ensure fair outcomes for customers. The FCA expect firms' remediation actions to be concluded by 30 June 2018. Initial assessment has suggested that the Group will need to review further its current approach on its acquired portfolios of relevant mortgage contracts; however, the Group has not systemically auto-capitalised arrears on its organically originated relevant mortgage contracts;

- in March 2017, the FCA published PS17/3 (*"Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance"*). The changes in this Policy Statement will directly affect consumers as the FCA introduced a deadline of 29 August 2019 for making new complaints about PPI, which will be preceded by an FCA-led awareness campaign. It also introduced new grounds for complaints against lenders in light of the U.K. Supreme Court case Plevin v Paragon Personal Finance Limited [2014] UKSC 61 and a requirement for firms that sold PPI to write to previously rejected complainants who are now eligible to complain in light of the Plevin versus Paragon Personal Finance Limited case. The Group is currently analysing the impact of these changes;

- the Group'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 the Group's ability to recover on the accounts underlying its debt portfolios in the United Kingdom or restrict important rights it relies on; and

- the unfair relationship provision in sections 140A-C of the Consumer Credit Act 1974 as amended may apply to unsecured credit agreements and consumer credit back book mortgage contracts, giving the court power to determine an unfair relationship and require the Issuer to repay sums to the debtor; to do, not do or cease doing anything in relation to the agreement; to reduce or discharge any sums payable by the debtor or surety; to return to a surety any security provided by him; to alter the terms of the agreement, direct accounts to be taken; or otherwise to set aside any duty imposed on the debtor or surety.

As the Issuer is a bank, its principal regulator is the PRA. In addition, the CMA and the 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. 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 the Group's ability to manage its business efficiently and subject it to increased costs through managing an increasingly complex compliance burden.

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 the Group operates. This could result in an adverse impact or increased operational and compliance costs to the industry and therefore on the Group. It is impossible to predict the effect that any of the proposed changes will have on the Group's operations, business and 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 the Group's operations, structure, costs and/or capital requirements. Accordingly, the Group cannot assure the holders of the Securities 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 the Group's operations, business, results, financial condition and/or prospects.

Regulatory action in the event a bank or investment firm in the 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 capital instruments write-down and conversion power and 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 capital instruments write-down and conversion power and 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 capital instruments write-down and conversion power and 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 capital instruments write-down and conversion power and the bail-in tool currently in force in the UK and applicable to the Securities, changes to the scope of, or conditions for the exercise of, the capital instruments write-down and conversion power and UK bail-in power may be introduced as a result of further developments, including those resulting from the outcome of Brexit.

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 (where applicable) 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" (each a "**relevant entity**") in circumstances in which the relevant UK resolution authority is satisfied that resolution conditions are met. Such conditions include that a relevant entity is failing or is likely to fail to satisfy the FSMA's threshold conditions (within the meaning of section 55B of the Financial Services and Markets Act 2000 (the "**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 SRR also includes a requirement for the UK resolution authority to write-down and convert capital instruments if the conditions to resolution are met, which may be implemented 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).

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 dis-apply 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 capital instruments write-down and conversion power.

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 the Securityholders 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 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 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 its resolution powers 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 resolution powers have been met, the relevant UK resolution authority would be expected to exercise these powers without the consent of the holders. Any exercise of resolution powers 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 exercise of any resolution powers 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 the Securityholders' consent), which may result in the Securityholders losing some or all of their investment. The permanent write-down of the Securities or their conversion into equity may occur under the Banking Act regardless of whether a Trigger Event under the Conditions has occurred. Moreover, in this regard, tier 1 capital instruments (such as the Securities), rank second in the sequence of securities subject to loss absorption, after common equity tier 1 ("**CET1**") instruments. As such, this may increase any risk of the Securityholders' 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 the Securityholders, 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 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 set 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.

In November 2015, the Bank of England published its final policy (the "**Final MREL Policy**") for exercising its powers to direct UK banks and investment firms to maintain MREL under section 3A(4) of the Banking Act ("*The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) – Responses to Consultation and Statement of Policy*"). Pursuant to the Final MREL Policy, the Bank of England proposes to set MREL for individual institutions by reference to three broad resolution strategies: (i) 'modified insolvency process' under Part 2 of the Banking Act 2009 – for those institutions which the Bank of England considers not to provide services of a scale considered critical and for which it is considered that a pay-out by the FSCS of covered depositors would meet the Bank of England's resolution objectives; (ii) 'partial transfer' – for those institutions which the Bank of England considers to be too large for a modified insolvency process but where there is a realistic prospect that critical parts of the business could be transferred to a purchaser; and (iii) 'bail-in' – for the largest and most complex institutions, which will be required to maintain sufficient MREL resources to absorb losses and, in the event of their failure, be recapitalised so that they continue to meet the PRA's conditions for authorisation and the institution (or its successor) is able to operate without public support. Furthermore, the Final MREL Policy also specified indicative thresholds which it would use to determine which resolution strategy would apply to individual institutions: institutions with fewer than 40,000 to 80,000 'transactional accounts' – i.e. those with at least nine withdrawals over the previous three months – would likely be subject to the modified insolvency process; institutions with more than 40,000 to 80,000 transactional accounts would be likely to be subject to a partial transfer strategy; and institutions with assets exceeding a thresholder of £15 billion to £25 billion would be likely to be subject to a bail-in strategy.

As part of the Final MREL Policy, the Bank of England confirmed that, in most cases, it will make use of the transition period allowed by the BRRD and the final EBA regulatory technical standards on the criteria for determining MREL

(Regulation (EU 2016/1450) to require institutions to comply with an interim MREL from 1 January 2020 (or 2019 for globally systemically important institutions (including banks) ("**G-SIIs**" or "**G-SIBs**")) and an end-state MREL from 1 January 2022 (subject to review by the end of 2020). Until such time as Interim MREL applies, the Final MREL Policy also states that an institution's MREL will be equivalent to its minimum regulatory capital requirements. The Final MREL Policy also specified that capital buffers must be met in addition to MREL.

As at the date of this Information Memorandum, the resolution strategy for the Group set by the Bank of England is the 'modified insolvency process' under Part 2 of the Banking Act 2009. The Bank of England has directed the Issuer that it does not expect the Issuer to maintain an MREL requirement under its Final MREL Policy in excess of the minimum regulatory capital requirements (i.e. Pillar 1 and Pillar 2A) to meet the overall financial adequacy rule in the Group's Internal Capital Adequacy Assessment under the PRA Rulebook, unless the Group's resolution strategy were to change.

If there was a change in the Group's resolution strategy – for example, as a result of a change in the Bank of England's policy on MREL or a significant expansion of the Group's operations – it is possible that the Issuer and/or other members of the 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 Group. During periods of market dislocation, or when there is significant competition for the type of funding that the Group may need, a requirement to increase the Group's MREL "eligible liabilities" may prove more difficult and/or costly. The effects of these proposals could therefore have a material adverse effect on the Group's operations, business results, financial condition and/or prospect.

The Group is subject to regulatory capital requirements that are subject to change and may result in additional capital requirements

The Group is subject to capital adequacy requirements adopted by the PRA. The Group's ability to do business could be constrained if it fails to maintain sufficient levels of capital. Further, if the Group fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against it. Effective management of the Group's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Group'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 ("**RWAs**"), 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 the Group's operations, business, results, financial condition and/or prospects. The Group faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. The Group's borrowing costs and capital requirements could be affected by these prudential regulatory developments, which include the legislative package, the Capital Requirements Directive (2013/36/EU) as amended ("**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 Group).The current consultation from the Basel Committee on revised standardised risk weights for credit risk proposed a higher risk weighting for Buy-to-Let assets; the proposals are to be implemented from 2019 at the earliest. The proposed standardised risk weights for credit risk set out in the Basel Committee's consultation are based on a global calibration. The implementation of proposals in their current form may require the Issuer to hold more capital against UK Buy-to-Let assets than it does currently. As an alternative to adopting the revised standardised risk weights proposed by the Basel Committee, the Group is progressing towards using an internal ratings-based ("**IRB**") approach to risk weighting of its credit risk. It is expected that there will be minimum risk weights applied to an IRB approach as part of the outcome of the Basel Committee's consultation. In February 2017, the PRA published a consultation entitled *"Refining the PRA's Pillar 2A capital framework"*, which is to be implemented by 1 January 2018. The aim of the PRA consultation is to ensure that the total amount of capital required for firms following the standardised approach for credit risk is not excessive.

Any future unfavourable regulatory developments could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

A market perception or actual shortage of capital issued by the Group could result in regulatory and/or governmental interventions, including requiring it 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 the Group's costs in respect of its OTC derivative transactions. The rules under the European Market Infrastructure Regulation ("**EMIR**") (EU Regulation No. 648/2012) in respect of margin requirements for uncleared derivative transactions came into force on 4 January 2017 and the requirements will be phased in. Further market reforms will be introduced by "**MiFID2/MiFIR**". The full impact of these changes is not yet known but the Group's costs in respect of its derivative transactions are likely to increase.

The Group's guidelines and policies for risk management may prove inadequate for the risks faced by its business and any failure to properly manage the risks which it faces could cause harm to the Group and its business prospects

The management of financial, operational, legal, regulatory and reputational risks requires, among other things, robust guidelines and policies for the accurate identification and control of a large number of transactions and events. Such guidelines and policies may not always prove to be adequate in practice. The Group faces a wide range of risks in its business activities, including, in particular:

- liquidity and funding risk, see "*The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail savings or its access to wholesale funding markets becomes limited and/or becomes more expensive, and this may have an adverse effect on the Group's business and profitability*" above;

- interest rate risk, where changes in interest rate levels, yield curves and spreads may affect the Group's interest rate margin realised between lending and borrowing costs. The Group accepts interest rate risk as a consequence of fixed rate mortgage lending, borrowing through fixed rate savings and purchases of fixed rate treasury assets. Interest rate exposure is mitigated on a continuous basis through the use of derivatives within the limits set by the Issuer's Assets and Liabilities committee and approved by the Issuer's board of directors (the "**Board**"). Any failure to manage the Group's interest rate risk could result in a reduction of the Group's net interest income and the economic value of its assets. See also, "*The Group's business and financial performance have been adversely affected by a prolonged period of low Bank of England base rates and may continue to be adversely affected for so long as the base rate remains low*" above;

- basis risk, which arises when the Group finances an asset with a liability that re-prices from a different interest rate index. There can be no guarantee that the Group will be able to continue to effectively manage basis risk, which could result in excess losses;

- credit risk, which is the risk that a borrower or a counterparty fails to pay interest or to repay the principal on a loan or other financial instrument. The Group may be unable to accurately quantify the credit risk of its own, more recently originated loans and mortgages due to the short period the loans have been in existence;

- model risk, which is the risk that an adverse outcome (incorrect or unintended decision or financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision-making or damage to the Group's reputation. Models are mathematical representations of business systems designed to help describe, predict, experiment with or optimise decisions and scenarios and are used throughout the Group's business; and

- operational risk, which is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or from external event. The Group's businesses are dependent on its ability to process transactions efficiently and accurately. Operational risk and losses can result from a range of internal and external factors. Internal factors include fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisations, failure to comply with regulatory requirements and conduct of business rules and equipment failures, particularly in relation to electronic banking applications.

External factors include natural disasters, terrorist action or the failure of external systems such as, for example, operational problems at other institutions. A feature of operational risk is that financial institutions rely on systems and controls such as standard form documentation and electronic banking applications to process high volumes of transactions. As a result, any error in the Group's standard documentation or any defect in its electronic banking applications can be replicated across a large number of transactions before the error or defect is discovered and corrected and this could significantly increase the cost to the Group of remediating the error or defect, could expose it to the risk of regulatory sanction, unenforceability of contracts and, in extreme cases, could result in significant damage to its reputation.

The Group has a range of tools designed to measure and manage the various risks which it faces. Some of these methods are based on historical market behaviour. The methods may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Historical data may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though the Group constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, 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 the Group's financial performance and business operations.

Reputational risk could cause harm to the Group and its business prospects

The Group'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 adversely affected to the extent that its reputation or the reputation of its brands is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Group and its business prospects. Reputational issues include, but are not limited to:

- failing to appropriately address potential conflicts of interest;
- breaching or facing allegations of having breached legal and regulatory requirements (including, but not limited to, conduct requirements, money laundering, anti-terrorism financing requirements and data protection);
- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices, see "*The Group is exposed to risks relating to breaches of legal or regulatory principles or requirements*" below);
- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;
- technology failures that affect customer services and accounts;
- failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered;
- third parties on whom the Group relies, such as clearing banks and third party mortgage servicing agents, failing to provide the necessary services; and
- generally poor company performance.

A failure to address these or any other relevant issues appropriately could make customers, depositors and investors unwilling to do business with the Group, which could have a material adverse effect on its business, financial condition and results of operations and could damage its relationships with its regulators. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

The Group is heavily reliant on a small number of key employees

The successful management and operations of the Group are reliant upon the contributions of its senior management team and other key personnel, including underwriting employees, who are key to the Group's bespoke approach to lending products. In addition, the Group's future success depends in part on its ability to continue to recruit, motivate and retain highly experienced and qualified employees. There is intense competition in the financial services industry for skilled personnel, in particular for appropriately qualified underwriting staff. Although the Group 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 the Group's senior management team or other key personnel, or an inability of the Group to attract new personnel, could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group relies on third parties for certain critical services

The Group's business is reliant on third parties. In particular:

- the Group's business is reliant on the major UK banks which act as clearing banks and payment services providers. The Group has experienced occurrences where, as a result of a failure by a clearing bank, borrowers have not received funds lent by the Group, causing such borrowers, in some instances, to be unable to complete on property purchases or where savers have not received interest paid by the Group. There can be no assurance that these failures will not occur in the future or that the general level of service provided by such clearing banks or payment services providers will not deteriorate in the future. Such failures in service levels have given rise to, and could in the future give rise to, reputational damage which could cause harm to the Group and its business prospects. In addition, there can be no assurance that the fees which the clearing banks and payment services providers charge the Group will not rise. Any such increase could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects;

- a proportion of the loans that make up the Group's acquired loan portfolios are serviced by third parties pursuant to existing contractual arrangements. There can be no guarantee that the Group will be able to renew these contracts on similar or more favourable terms. Any significant increase in fees would affect the Group's financial condition in the future;

- as noted above, the Group is reliant on third parties which service a proportion of the Group's acquired loan portfolios. Any failure by such third parties to comply with their contractual obligations could give rise to reputational damage which could cause harm to the Group and its business prospects. In addition, certain of these third party service providers do not have appropriate disaster recovery systems in place. Any loss of customer data or customer funds could have a significant effect on the Group's operations, and could entail significant capital expenditure by the Group to remedy such failures, which could have an adverse effect on the Group's financial condition. Such failures could also give rise to reputational damage which could cause harm to the Group and its business prospects;

- nearly all of the Group's organically originated business is introduced by mortgage intermediaries. Growth of the Group's mortgage lending business is therefore dependent on its relationships with and management of such intermediaries, including implementing measures to ensure that such intermediaries act in accordance with all applicable rules and regulations. Any failure to manage such relationships with mortgage intermediaries could have an adverse effect on the Group's ability to grow its mortgage lending business; and

- the Group is reliant on third party advisers for the provision of cash-flow modelling services when it considers loan portfolio acquisitions and when updating carrying values. The adverse consequences of any modelling failure include financial loss, poor business or strategic decision making or damage to the Group's reputation.

Competition in the UK personal financial services markets may adversely affect the Group's operations

The Group relies heavily on its retail savings franchise to fund itself. The Group's strategy is to maintain and develop its established savings franchise as a growing and stable source of funding. For a more detailed discussion of the Group's strategy, see the section entitled "*Description of OneSavings Bank's Business*" below. The Group competes

mainly with other providers of personal financial services, including banks, building societies and insurance companies, and operates in an increasingly competitive UK personal financial services market. Each of the main personal financial services markets in which the Group operates is mature, so that growth requires taking market share from competitors. Some of the Group'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 savings to such competitors or may limit the Group's ability to attract new customers. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. The Group competes primarily on its policy of offering consistent long-term good value and better service to its customers. If the Group is unable to achieve the efficiency of its competitors in these respects, it risks losing one of its significant competitive advantages and being unable to match its strategic growth aspirations.

The UK market for financial services and the mortgage market in particular have been reshaped by the financial crisis witnessed in financial markets and wider economies between 2007 and 2017. As a result of the financial crisis, the banking sector generally has moved to reduce its dependence on wholesale funding, resulting in greater competition for retail deposits, which has inevitably had a negative impact on lenders' margins. Competition may intensify further in response to consumer demand, technological changes, the impact of consolidation in the UK financial sector, regulatory actions, the MCD (which, as mentioned above, may make it easier for European financial institutions to access the UK market) and other factors. If increased competition were to occur as a result of these or other factors, it could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

Each of the major UK banks has announced that it will focus on improving its customer service. If the Group's customer service levels were perceived by the market to be only in line with, or materially below, those of competitor UK financial institutions, it could lose existing and potential new business. If the Group 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 deposits or retain existing deposits, which could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

In addition, the Group competes on credit standards. Should the Group's competitors lower their credit standards, the Group may be required to (i) do the same, to ensure that its share of the sub-sectors in which it operates does not fall or (ii) reduce its lending. Any lowering of credit standards by the Group could lead to a reduction in the quality of the security the Group takes (which could lead to increased mortgage impairment charges) and in the Group having increased levels of borrowers who may be less able to repay their mortgages or loans (which could result in the Group recording higher loan loss provisions). Any increase in the Group's mortgage impairment charges and loan loss provisions or reductions in lending would have a material adverse effect on the Group's operations, business, financial condition and/or prospects.

The Group is dependent on its IT systems, which may fail or be subject to disruption

The Group's operations are dependent on its IT systems, and there is a risk that such systems could fail. There can be no assurance that the Group's IT systems are or will continue to be able to support a significant increase in online traffic. Although the Group has in place business continuity procedures and security measures in the event of IT failures or disruption, including backup IT systems for business critical systems, these are not, and are not intended to be, a full duplication of the Group's operational systems. Should any of these procedures and measures not anticipate, prevent or mitigate a network failure or disruption, or should an incident occur to a system for which there is no duplication, there may be a material adverse effect on the Group's operations, business, financial condition and/or prospects.

Further, the Group is currently in the process of implementing a number of IT system upgrades, in particular in relation to its customer-facing infrastructure. Should these upgrades not be completed as planned, or become subject to significant delays, the Group's existing IT systems could be adversely affected. The migration of data involved in the transition to new systems may require remediation of data or customer accounts within the transfer process. Any of these factors could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group is exposed to risks relating to breaches of legal or regulatory principles or requirements

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

- the Group is subject to capital adequacy requirements adopted by the PRA. Although the Group is in compliance with its current capital requirements, changes to regulation in this area may be imposed in the future and failure to comply with such requirements could expose the Group to administrative actions or sanctions;

- certain aspects of its business may be determined by the PRA, the FCA, HM Treasury, the Financial Ombudsman Service, the Office of the Information Commissioner 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;

- the FCA introduced new rules into its Handbook as a result of its Mortgage Market Review. These rules took effect on 26 April 2014 and require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and will ban self-certified loans. These rules permit interest-only loans where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment. This could give rise to additional causes of action against the Group for aggrieved customers;

- actual or 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 the Group's financial statements and could adversely impact future revenues from affected products;

- the transfer of consumer credit regulation from the Office of Fair Trading to the FCA may result in the FCA carrying out historical reviews of credit agreements (whether originated by the Group or acquired by the Group 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;

- the Group may be liable for damages to third parties harmed by the manner in which the Group has conducted one or more aspects of its business; and

- the Group may be liable for conduct issues (to the extent that there are any) in respect of legacy actions (or omissions) taken (or not taken) by the Kent Reliance Building Society (prior to the Group's creation) and businesses or loan portfolios acquired by the Group after February 2011.

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

The Group also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the UK 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. However, no assurance can be given that financial institutions (including the Group) will not 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 the Group's operations, business, results, financial condition and/or prospects.

The Financial Services Compensation Scheme (the "FSCS") imposes significant levies on the Group which may increase in future periods

The regulatory response to the financial crisis of 2008 has been largely designed for the bank public limited company ownership model (for example, the requirement for financial institutions to increase their capital levels and the imposition of levies by the FSCS, which are not determined on a basis that reflects the relative risk of the business models of individual institutions). 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. Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. The amount provided for in the Group's accounts to meet its obligations to the FSCS for 2016 was £0.5 million. 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 in significant amounts that may have a material impact on the Group's profits. In common with other financial institutions which are subject to the FSCS, the Group also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential 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 the Group. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

In April 2014, the recast EU directive on deposit guarantee schemes (2014/49/EU) ("**DGSD2**") was adopted and was published in the OJEU 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 EU 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 the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities, which may have a material adverse effect on its profitability.

The Group could be negatively affected by a deterioration in the soundness or a perceived deterioration in the soundness of other financial institutions and counterparties

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

A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions and could have a material adverse effect on the Group's operations, business, results, financial condition or prospects.

The Group's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Group to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how the Group records and reports its financial condition and results of operations. The Group must exercise judgement in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established detailed policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Group's judgements and the estimates pertaining to these matters, the Group 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.

Changes in accounting standards could materially impact how the Group 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 the Group's financial statements. These changes can be difficult to predict and could materially affect how the Group records and reports its financial condition and results of operations. In some cases, the Group 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 will impact the Group, by revising requirements for recognising and calculating impairment losses on lending portfolios and may have a material effect on the Group's financial statements. The extent of this change will depend upon the composition of the Group's lending portfolios and the forecast economic conditions on the date of implementation of 1 January 2018.

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

The Group is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes

The Group'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 Government (or relevant European bodies) to increase tax rates or to impose additional taxes would reduce the Group's profitability. Revisions to tax legislation or to its interpretation might also affect the Group's financial condition in the future. In addition, the Group is subject to periodic tax audits which could result in additional tax assessments relating to past periods of up to six years being made. Any such assessments could be material which might also affect the Group's financial condition in the future.

The Group's support operations are based in India and could be affected by a number of economic, political and other factors affecting India which are beyond the Group's control

The Group has its own Indian operations, based in Bangalore, which are responsible for, among other things, all of the Group's savings processing, operating the Group's call centre and processing all online instructions and emails. The Group's strategy includes using its Indian operations to perform additional functions in the future. As India remains a developing country, the Group's operations in India could be adversely affected by economic, political, legal and

regulatory changes. In particular, foreign companies operating in India (directly or indirectly) could be subject to changes in applicable legislation and changes to the tax environment and the regulatory framework in which they operate. It is not possible to predict what impact such changes could have on the Group, but any reduction in its ability to provide support services to the rest of the Group could increase the Group's costs significantly and could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group may be subject to privacy or data protection failures, cyber-theft or other forms of fraudulent activity, and its confidential information may be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection regulation

The Group is subject to regulation regarding the use of personal data. The Group processes large amounts of personal data (including name, address and bank details) as part of its business and therefore must comply with strict data protection and privacy laws in the jurisdictions in which the Group operates. Such laws govern the Group's ability to collect and use personal information relating to employees, customers and potential customers, including the use of that information for marketing purposes. The Group seeks to ensure that appropriate governance, third party vendor due diligence policies and procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third party service providers. Notwithstanding such efforts, the Group is exposed to the risk of a data breach in which such personal data is wrongfully appropriated, lost or improperly disclosed in breach of data protection regulation. If the Group or any of the third party service providers on which it relies fails to store, handle or transmit personal data in compliance with relevant laws and regulations or if any loss of personal data were otherwise to occur, the Group would be at risk of significant regulatory liability.

The Group could also be at risk of cyber-crime. Although the Group implements security measures designed to mitigate this risk, the Group and/or third party service providers on which it relies could be a target of cyber-attacks designed to penetrate network security or the security of internal systems, misappropriate proprietary information or customer information and/or cause interruptions to the Group's services. Such attacks could include hackers or insiders with criminal intent obtaining access to the Group's own or the Group's service providers' systems, the introduction of malicious computer code or denial of service attacks. If an actual or perceived breach of the Group's network security occurs or personal data is stolen, it may expose the Group to the loss of information, litigation and liability under data protection laws. Such a security breach could also divert the efforts of the Group's technical and management personnel.

In addition to the regulatory risks contemplated above, any of these events could also result in the loss of the goodwill of the Group's customers and deter new customers, which could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group is exposed to potential losses arising from derivative contracts and swaps

From time to time, the Group uses derivative instruments as hedges, including interest rate swaps, to reduce its exposure to adverse fluctuations in interest rates. Any failure by any of the Group's counterparties to discharge their obligations or to provide adequate collateral could have a material adverse effect on the Group's results of operations and financial condition. In addition, should a significant number of fixed-rate long-term mortgages and loans be prepaid earlier than anticipated, then the Group may incur losses on the underlying swaps if those swaps have a negative fair value when they are unwound. These losses could be significant and could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group's insurance coverage may not be adequate to cover all possible losses that it could suffer and its insurance costs may increase

The Group seeks to maintain comprehensive insurance coverage at commercially reasonable rates. Although the Group carries business interruption, property, director and officer and employer's insurance to cover certain risks, its insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no assurance that the Group's insurance will be sufficient to cover the full extent of all losses or liabilities for which it is insured and the Group cannot guarantee that it will be able to renew its current insurance policies on favourable terms, or at all. Any insufficiency in the Group's insurance coverage or failure to renew its insurance policies on favourable

terms could have a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group's business and financial performance would be adversely affected by a break-up of the single euro currency

As noted above, over the past ten years, there has been significant volatility in financial markets around the world, and in Europe in particular. In addition, weak macroeconomic factors in many countries around the world, including in Europe, has resulted in negative or weak GDP growth for a number of years. Reflecting these and other concerns, in January 2012 one of the major international credit rating agencies lowered its long-term ratings in respect of nine European sovereigns, further increasing market uncertainty. Furthermore, the effectiveness of the actions aimed at stabilising European economies and reducing debt burdens is not assured and the possibility remains that the euro could be abandoned as a currency by countries that have already adopted its use or, in an extreme scenario, abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the European and global economies of the potential dissolution of the EMU, exit of one or more EU Member States from the EMU and the redenomination of financial instruments from euro to a different currency are impossible to predict fully. However, if any such events were to occur they would likely:

- result in significant market dislocation;
- heighten counterparty risk; and
- have a knock-on effect on the UK economy and a material adverse effect on the Group's operations, business, results, financial condition and/or prospects.

The Group anticipates that such an event would be likely to adversely affect the cost and availability of wholesale funding, thereby increasing competition for retail funds and having an adverse impact on the Group's net interest margin. Such an event would also have an adverse effect on the UK's economic recovery.

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 unsecured and subordinated obligations of the Issuer.

On a winding-up or administration of the Issuer, 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 or dissolution of the Issuer 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 holders of the Securities shall, in a winding-up or dissolution of the Issuer 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 or dissolution following payment of all amounts due in respect of the liabilities of the Issuer.

In addition, as further described below under "*Upon the occurrence of a Trigger Event, the Securityholders will lose all or some of the value of their investment in the Securities*", the principal amount of the Securities will, in certain circumstances, be irrevocably (without the need for the consent of Securityholders) written-down to zero and converted into Ordinary Shares of the Issuer. The claims of holders of Ordinary Shares in a winding-up or dissolution of the Issuer 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 or dissolution of the Issuer 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 of the Issuer and there is an enhanced risk that holders will lose all of the value of their investment.

Although the Securities have the potential to 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.

As at 31 December 2016, the Issuer had the following indebtedness outstanding, all of which is senior to the Securities. The following table has been extracted from information within the 2016 Annual Report and the information contained therein is unaudited:

Indebtedness	**As at 31 December 2016 (£m)**
Bank debt[2]	0.6
Amount owed under the Bank of England's TFS scheme	101.0
Subordinated liabilities:	
— Perpetual Subordinated Bonds	15.3
— Other subordinated liabilities	21.6
Total subordinated liabilities	36.9
Total indebtedness	**138.5**

As at 31 December 2016, in addition to the amount of £101.0 million received from the TFS scheme, the Group had also received off balance sheet funding in the form of treasury bills from the Bank of England under the FLS scheme of £524.6 million. As at 31 December 2016, the Group had pledged mortgages with the Bank of England as collateral security with a carrying value of £1,413.9 million in respect of both the TFS and the FLS.

The Group has an additional £22 million of perpetual subordinated bonds classified as equity under IFRS.

No limitation on issuing senior or *pari passu* securities

There is no restriction on the amount of securities which the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or *pari passu* with, the Securities. The issue of any such securities and/or the assumption of any such other obligations may reduce the amount recoverable by Securityholders on a winding-up or administration of the Issuer and/or may increase the likelihood of a cancellation of Interest Amounts under the Securities.

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 of the Issuer. The Trustee may claim in any winding-up of the Issuer (whether or not such winding-up is instituted by the Trustee) and claim in such winding-up for the amounts provided in Condition 5, 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.

[2] Represents cash collateral received from swap counterparties.

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 CRD IV to restrict or prohibit payments by an issuer of interest to holders of Additional Tier 1 ("**AT1**") 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 (including any Additional Amounts payable, if applicable, thereon) 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 Group to be exceeded; or (iii) result in a breach of the Solvency Condition described in Condition 4(a).

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 introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Issuer from making interest payments on the Securities in certain circumstances, in which case the Issuer will automatically cancel such interest payments*" below.

Any interest not so paid on any such Interest Payment Date shall be cancelled, shall not accumulate 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 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 within the sole discretion of the Board whether to take into account the relative ranking of the Securities in its capital structure whenever exercising its discretion to declare any distribution in respect of the Ordinary Shares, or its discretion to cancel interest on the Securities.

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 is trending towards a failure to meet fully the

combined capital buffer requirement (the level at which the Maximum Distributable Amount restriction under CRD IV becomes relevant) may have an adverse effect on the market price of the Securities.

The level of the Issuer's Distributable Items may be 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.

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.

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. The Issuer's Distributable Items were £160.1 million at 31 December 2016.[3]

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 above) 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 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 RWAs ("**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 requirement**") 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 requirement must be met with CET1 capital. This is consistent with the approach adopted in the European Commission's proposal to amend CRD IV published in November 2016. CRD IV also introduced capital buffer requirements that are in addition to the minimum capital requirement and required to be met with CET1 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 Group as determined by the PRA. The Group has a Pillar 2A requirement of 1.2 per cent. of RWAs.

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 an effective rate of zero for UK exposures which are already covered by an institution's PRA buffer but may be up to 2.5 per cent. or higher in the

[3] Distributable items are calculated as the bank's retained earnings and transfer reserve.

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 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 RWAs. 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. CET1 capital consistently with the CRD IV buffers by 2019 (subject to transitional arrangements from 2016 starting with 25 per cent. of CET1 capital) which would be in addition to the CET1 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; as a result, it may be necessary for the Issuer to cancel (in whole or in part) interest payments in respect of the Securities to retain such additional CET1 capital.

Under Article 141 (Restrictions on distributions) of CRD IV, 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 CET1 and AT1 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, 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). The PRA also has the power under section 55M of the FSMA (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 cancel (in whole or in part, as required by the PRA) interest payments in respect of the Securities.

It is the Group's policy to hold capital resources in excess of the combined buffer requirement and the PRA buffer. There can be no assurance, however, that the Issuer will continue to maintain such excess or that any such excess would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Securities or a breach of the PRA buffer resulting in enhanced supervisory action. 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 its 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 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*". The PRA indicated in November 2016 that an issuer's combined buffer requirement will be separate from that issuer's MREL such that CET1 cannot be counted towards the combined buffer requirement and MREL simultaneously. The implementation of the BRRD's MREL 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 Brexit) 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 GEM 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.

Upon the occurrence of a Trigger Event, Securityholders will 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 AT1 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'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**") at any time: (a) any accrued and unpaid interest up to (and including) the Conversion Date (whether or not such interest has become due for payment) shall be automatically cancelled; and (b) the Issuer shall issue, by way of conversion of the Securities (as described in Condition 9(b)), on the Conversion Date to the Settlement Shares Depositary to be held for the Securityholders such number of Ordinary Shares as is equal to the aggregate principal amount of the Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares and each Security shall, subject to and as provided in Condition 9, thereby be irrevocably discharged and satisfied. The Conversion Price will be £3.199 (subject to adjustment in the circumstances provided in Condition 9). See Condition 9 of the Securities.

Any such Conversion will be irrevocable and, following Conversion, Securityholders will not be entitled to any form of compensation in the event of the Issuer's potential recovery (other than any gain attributable to any increase over time in the value of the Ordinary Shares held by the Securityholder) or change in the Issuer's fully loaded Common Equity Tier 1 Capital Ratio. In addition, on or after the occurrence of the Trigger Event if the Issuer does not deliver Ordinary Shares to the Settlement Shares Depositary, the only claims Securityholders will have against the Issuer will be for specific performance to have such Ordinary Shares issued and delivered to the Settlement Shares Depositary or in an insolvency, to participate in the liquidation proceeds of the Issuer as if the Ordinary Shares had been issued. Once the Ordinary Shares to be delivered on Conversion have been issued and delivered to the Settlement Shares Depositary, the only claims Securityholders will have will be against the Settlement Shares Depositary for delivery of Ordinary Shares.

As a result of Conversion, 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.

Furthermore, upon Conversion, Securityholders will no longer have a debt claim in relation to the principal and any accrued but unpaid interest on the Securities shall be cancelled and shall not become due and payable at any time.

A Conversion shall be deemed effective with effect from the Conversion Date stated in the Trigger Event Notice to be given by the Issuer and without the requirement for any further formality. A Securityholder will not (i) receive, other than the relevant number of Ordinary Shares as is equal to the aggregate principal amount of that holder's Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares, any shares or other participation rights in the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Issuer or (ii) be entitled to any subsequent re-transfer or any other compensation in the event of any change in the Common Equity Tier 1 Capital Ratio of the Issuer.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. Accordingly, investors may be unable to 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 Capital Ratio of the Issuer*" 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 the Settlement Shares Depositary and to the Securityholder of any Ordinary Shares (or any interest therein) upon Conversion.

In addition to Conversion of the Securities in accordance with Condition 9, 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 Council of the European Union has adopted a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the directive or the taking of any action under it could materially affect the value of any Securities"* and *"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 deposit taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Issuer could materially adversely affect the value of any Securities*" below.

The market price of the Securities is expected to be affected by fluctuations in the Issuer's Common Equity Tier 1 Capital Ratio. Any reduction in the Issuer'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's Common Equity Tier 1 Capital Ratio is or may be trending towards 7.00 per cent.

The Issuer reports publicly on a semi-annual basis (as at the end of each of its financial half years) the Issuer's Common Equity Tier 1 Capital Ratio, calculated on a solo basis. There may be no prior warning of adverse changes in the Issuer's Common Equity Tier 1 Capital Ratio. Any indication that the Issuer'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's Common Equity Tier 1 Capital Ratio may significantly affect the trading price of the Securities.

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

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. Moreover, because the relevant authority may calculate or may instruct the Issuer to calculate the Issuer's Common Equity Tier 1 Capital Ratio as at any date, a Trigger Event could occur at any time, 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. Moreover, the relevant United Kingdom resolution authority is likely to allow a Trigger Event to occur rather than to resort to the use of public funds.

The Issuer's Common Equity Tier 1 Capital Ratio may fluctuate during each reporting period. The calculation of such ratio could be affected by one or more factors, including, among other things, changes in the mix of the Issuer'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 RWAs, in each case on an individual consolidated basis) and the Issuer's ability to manage RWAs in both its on-going businesses and those which it may seek to exit. For example, the Common Equity Tier 1 Capital Ratio of the Issuer may decline as the business of OneSavings Bank develops. In particular, any growth in the RWAs of the Issuer may result in a reduction in the Common Equity Tier 1 Capital Ratio of the Issuer if not matched by an increase in its Common Equity Tier 1 capital at a corresponding rate. In addition, changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and RWAs that the Issuer may have.

The calculation of the Issuer'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's Common Equity Tier 1 Capital Ratio.

Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Issuer's calculations of regulatory capital, including CET1 and RWAs and the Issuer's Common Equity Tier 1 Capital Ratio.

It will be difficult to predict when, if at all, a Trigger Event and subsequent Conversion may occur. Accordingly, trading of the Securities is not necessarily expected to follow trading 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 will be affected by the Issuer's business decisions and, in making such decisions, the Issuer'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*" above, the Issuer's Common Equity Tier 1 Capital Ratio could be affected by a number of factors. The Issuer's Common Equity Tier 1 Capital Ratio will also depend on the Issuer's decisions relating to its businesses and operations, as well as the management of its capital position. In making such decisions, the Issuer may have regard to the interests of a range of stakeholders, which may include holders of debt instruments issued by the Issuer. However, the Issuer has no obligation to consider the interests of the holders of the Securities specifically in connection with any of 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 Group relating to decisions that affect the business and operations of the Issuer, including the Issuer'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'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 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 or (if earlier) Long-Stop 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 or (if earlier) Long-Stop 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 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"*

Although the Issuer currently expects that beneficial interests in the Securities will be transferable between the Conversion Date and the Suspension Date (as defined below) 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 ISE's GEM 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.

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, Euroclear UK & Ireland Limited ("**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 Long-Stop Date, the relevant Securities will be cancelled on the Long-Stop Date. Moreover, after the Long-Stop Date Securityholders will continue to be required to provide a Conversion 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 "**Articles**").

The Conversion Price is fixed and subject to adjustment in only very limited circumstances; Securityholders 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 £3.199, subject to any adjustment pursuant to Condition 9.

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 and described in Condition 8.

Securityholders who receive Ordinary Shares upon Conversion will be subject to the Articles

A Securityholder who receives Ordinary Shares upon Conversion will hold such Ordinary Shares subject to the Articles. "Ordinary Shares" means ordinary voting shares in the capital of the Issuer (or, in the event of an Exempt Newco Scheme, the ordinary shares of the Newco) which form part of the same class of ordinary shares which is admitted to trading.

As at the date of this Information Memorandum, the Articles contain certain provisions relating to, among other things, the declaration and payment of dividends, voting rights and transfers in relation to the Ordinary Shares. In particular, the declaration and payment of dividends is at the discretion of the Board. A summary of the Articles and the rights attaching to the Ordinary Shares is set out in "*Description of the Shares*" of this Information Memorandum.

The rights of the holders of Ordinary Shares will be deeply subordinated

The claims of holders of Ordinary Shares in a liquidation of the Issuer are the most junior-ranking of all claims and are limited to a share of the surplus assets (if any) remaining following payment of all amounts due in respect of all of the liabilities of the Issuer.

In addition, the trading price of the Ordinary Shares may fluctuate; because a Trigger Event will only occur at a time when the Common Equity Tier 1 Capital Ratio of the Issuer has deteriorated significantly, any Ordinary Shares delivered upon Conversion may have little or no value at such time.

A holding in Ordinary Shares by a holder whose principal currency is not sterling may be affected by exchange rate fluctuations

The Ordinary Shares are denominated, and any dividends in respect of the Ordinary Shares are expected to be paid, in sterling. A holding in Ordinary Shares by a holder whose principal currency is not sterling will expose the holder to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the holding of the Ordinary Shares or any distribution in relation to such foreign currency.

Prior to the Conversion Date, Securityholders will not be entitled to any rights with respect to the Ordinary Shares, but will be subject to all changes made with respect to the Ordinary Shares

The exercise of voting and other rights related to any Ordinary Shares is only possible after registration of the relevant person entitled to the Ordinary Shares in the Issuer's share register in accordance with the provisions of, and subject to the limitations provided in, the Articles.

For the purposes of the Trigger Event, the Common Equity Tier 1 Capital Ratio will be calculated on a "fully loaded" basis. This will result in a lower calculated Common Equity Tier 1 Capital Ratio than one using CRD IV transitional provisions, increasing the potential for Conversion in the short term. Changes to the calculation of CET1 capital and/or RWAs may negatively affect the Issuer's Common Equity Tier 1 Capital Ratio, thereby increasing the risk of the Trigger Event which will lead to Conversion, as a result of which the Securities will automatically be converted into Ordinary Shares

The CRD IV legislation sets out a minimum pace of introduction of enhanced capital requirements (the "**Transitional Provisions**"). The Transitional Provisions are designed to implement certain CRD IV requirements in stages over a prescribed period; however, each of the EU Member States has the discretion to accelerate that minimum pace of transition in certain respects. In the United Kingdom, the PRA has confirmed that it will accelerate the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA's rules and Supervisory Statements published on 19 December 2013, the PRA will require the Issuer to meet certain capital targets within certain prescribed timeframes, without having regard to any Transitional Provisions in that respect. Therefore, for the purposes of the Securities, the Issuer will calculate the Issuer's Common Equity Tier 1 Capital Ratio without applying the Transitional Provisions and will instead calculate its Common Equity Tier 1 Capital Ratio on a so-called "fully loaded" basis, which is a more stringent basis than under the CRD IV regime and will lead to the Common Equity Tier 1 Capital Ratio as defined for purposes of the Securities being lower than it would be were the Issuer to calculate the Common Equity Tier 1 Capital Ratio applying the Transitional Provisions.

As at 31 December 2016, the Issuer's Common Equity Tier 1 Capital Ratio, giving full effect to CRD IV on a fully-loaded basis, was 13.3 per cent.

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

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 9(e)) 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 upon a 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 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 more fully described under Condition 9(e)(iv). There can be no assurance that a Relevant Event will not be a Non-Qualifying Relevant Event, in which case investors would, in the event of a Trigger Event subsequently occurring, lose their entire 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 a UK bank, the Issuer is subject to the "Special Resolution Regime" under 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 the 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 require the relevant UK resolution authority to write-down and convert capital instruments at the point of non-viability of the relevant entity (the "**capital instruments write-down and conversion power**") and to amend the existing "**bail-in tool**" introduced under the Banking Reform Act as further described below, both of which are exercisable by the Bank of England (as a relevant UK resolution authority) and form part of the "**UK bail-in power**".

The Bank of England may be required to implement the capital instruments write-down and conversion power 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 requires 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. The capital instruments write-down and conversion power applies to all UK banks subject to the Banking Act (regardless of their size or resolution strategy) if the conditions for resolution have been met. The capital instruments write-down and conversion power could be implemented even though a Trigger Event has not yet incurred; the Bank of England's powers under the capital instruments write-down and conversion power are entirely independent and distinct from the Issuer's power to convert the Securities in accordance with the Conditions. If the Bank of England is required to exercise the capital instruments write-down and conversion powers because the Issuer is no longer viable, the Securities will be written-down (in whole or in part) or converted into CET 1 instruments of the Issuer.

On 18 December 2013, the Banking Reform Act became law in the United Kingdom. Among the changes introduced by the Banking Reform Act, 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 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 CET1 instruments of the Issuer or one of the Group's entities or another institution under the capital instruments write-down and conversion power or the bail-in tool. Accordingly, and as described above where there exists a threat that a Trigger Event may occur, trading behaviour may also be affected by the possibility that the UK resolution authority may exercise any 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 SRR powers effectively, potentially with retrospective effect.

The powers set out in the Banking Act could affect how credit institutions 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 determining whether any UK bail-in power is exercisable by it is likely to include a number of subjective criteria or conditions, 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–down 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 EBA. 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 FSMA 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.

The rights of Securityholders will be limited following the occurrence of a Trigger Event

Although the Issuer currently expects that beneficial interests in the Securities will be transferrable between the occurrence of a Trigger Event and the Conversion Date (or, in the case of transfers between accountholders in Euroclear and Clearstream, Luxembourg, the Suspension Date (as defined below)), there is no guarantee that an active trading market will exist for the Securities following the occurrence of a Trigger Event. Accordingly, the price received for the sale of any beneficial interest under a Security during this period may not reflect the market price of such Security or the Ordinary Shares.

The Issuer currently expects that Euroclear and Clearstream, Luxembourg will each suspend all clearance and settlement of transactions in the Securities on a specific date (the "**Suspension Date**") to be notified to Securityholders in the Trigger Event Notice. As a result, holders of the Securities will not be able to settle the transfer of any Securities through Euroclear and/or Clearstream, Luxembourg following the Suspension Date, and any sale or other transfer of the Securities that a holder of the Securities may have initiated prior to the Suspension Date with respect to Euroclear or Clearstream, Luxembourg that is scheduled to match or settle after the Suspension Date will be rejected by such clearing system and will not be matched or settled through such clearing system. It is also possible that transfers of beneficial interests in the Securities may be suspended by Euroclear and/or Clearstream, Luxembourg (or by the direct participants and/or intermediaries through which beneficial interests in the Securities may be held) at an earlier time than currently expected.

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 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 together with Accrued Interest, if a Tax Event or a Capital Disqualification Event has occurred and is continuing.

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 accrue 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 6(d)). 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 may be substituted as principal debtor in respect of the Securities

At any time, the Trustee may (without the consent of the Securityholders but subject to the approval of the Supervisory Authority) agree to: (i) any substitution as provided in and for the purposes of Condition 15(e); or (ii) the substitution of the Issuer's successor in business (as defined in Condition 21) in place of the Issuer, or of any previously substituted company, as principal debtor under the Securities, subject to (in the case of (ii) only) the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Securityholders and (in the case of (i) and (ii)) to certain other conditions set out in the Trust Deed being complied with.

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 depositary 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 depositary. 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 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.

Any modification or waiver of the Terms and Conditions and the Trust Deed is subject to the Issuer obtaining Regulatory Approval.

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. 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 Ordinary Shares. Accordingly, each potential investor should consult its legal advisers as to the terms of the Securities, in respect of its existing holding 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. The Sole Bookrunner is also required to comply with the PI Rules and as a result of this compliance, prospective investors will be required to give the representations, warranties, agreements and undertakings as set out on pages 3 to 5 of this Information Memorandum.

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 deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable or electing 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 on the Irish Stock Exchange and admitted to trading on the GEM, 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 (excluding italicised paragraphs) 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 £60,000,000 Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities (the "**Securities**", which expression shall in these Conditions, unless the context otherwise requires, include any further Securities issued pursuant to Condition 18 which are consolidated and form a single series with the Securities) of OneSavings Bank plc (the "**Issuer**") are constituted by a trust deed dated 25 May 2017 (as amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between the Issuer and U.S. Bank Trustees 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 25 May 2017 (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 prior arrangement by the Securityholders at the registered office for the time being of the Trustee, being at the date of issue of the Securities at 125 Old Broad Street, Fifth Floor, London EC2N 1AR, 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 are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

The Securities are issued in registered form in specified denominations of £200,000 and integral multiples of £1,000 in excess thereof.

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

Title to the Securities shall pass by registration in the register of the Securityholders that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Security shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the Holder.

2. TRANSFER OF SECURITIES

(a) Transfer of Securities

One or more Securities may, subject to Condition 2(d), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Securities to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. A new Certificate shall be issued to the transferee in respect of the Securities the subject of the relevant transfer and, in the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate in respect of the balance of the Securities not transferred shall be issued to the transferor. In the case of a transfer of Securities to a person who is already a Holder of Securities, a new Certificate representing the enlarged holding shall be issued but only against surrender of the Certificate representing the existing holding of such person. 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 made available by the Registrar to any Securityholder upon request.

(b) Delivery of New Certificates

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

(c) Transfers Free of Charge

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

(d) Closed Periods

No Securityholder may require the transfer of a Security to be registered (i) during the period of 15 days ending on the due date for redemption of the Securities pursuant to Condition 8, (ii) at any time after the second Business Day following the giving of a Trigger Event Notice by the Issuer or (iii) during the period of seven days ending on (and including) any Record Date.

3. STATUS

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

4. SUBORDINATION

(a) Solvency Condition

Except in a Winding-Up of the Issuer or (in relation to the cash component of any Alternative Consideration) where Condition 9(c)(vii) applies, all 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 6(a) and Condition 9(a)(i), 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 certificate as to the solvency of the Issuer signed by two Authorised Signatories shall, in the absence of manifest error, be treated and accepted by the Trustee and the Securityholders as correct and sufficient evidence thereof.

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

As used in these Conditions:

"**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.

"**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.

(b) 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, administrator or, as appropriate, other insolvency official of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator, administrator or, as appropriate, other insolvency official of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

As stated in further detail in Condition 17(e), the provisions of this Condition 4 apply only to the principal and interest and any other amounts (including any damages awarded for breach of any obligation under the Securities) payable in respect of the Securities and nothing in this Condition 4 or in Condition 5, 7 or 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

5. WINDING-UP

(a) Winding-Up prior to a Trigger Event

If a Winding-Up occurs 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 5(a)), 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 Parity Obligations and any class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which has or have a preferential right to a return of assets in the Winding-Up over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer (including, for the avoidance of doubt, any Ordinary Shares), but ranking junior to the claims of Senior Creditors and to any notional class or classes of preference shares in the capital of the Issuer by reference to which the claims of any Senior Creditors in a Winding-Up are to be determined, 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 (to the extent not cancelled in accordance with these Conditions) and any other amount payable to such Securityholder in respect of the Securities (including damages awarded for breach of any obligation under the Securities).

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

If a Winding-Up occurs concurrently with or after the occurrence of a Trigger Event, and where Conversion has not yet been effected, there shall be payable by the Issuer in respect of each Security (in lieu of any other payment or any issue or delivery of Ordinary Shares by the Issuer), 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 upon Conversion in accordance with Condition 9.

6. INTEREST

(a) *Cancellation of interest*

Discretionary cancellation of interest

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

Mandatory cancellation of interest- insufficient Distributable Items

To the extent required to do so under then prevailing Regulatory Capital Requirements, the Issuer will cancel any Interest Amount otherwise scheduled to be paid on an Interest Payment Date to the extent that such Interest Amount (together with any Additional Amounts payable, if applicable, with respect thereto), 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 (as defined in the CRD IV Regulation) 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.

As used herein, "**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:

(i) any profits brought forward and reserves available for that purpose before distributions to holders of other own funds items of the Issuer; less

(ii) any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the Issuer's articles of association and sums placed to non-distributable reserves in accordance with the Companies Act 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.

Non-payment of interest sufficient evidence of cancellation

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

Notice of cancellation of interest

Notice of any cancellation of payment of a scheduled Interest Amount shall be given to Securityholders (in accordance with Condition 14), the Trustee, the Agents and (if and for so long as the Securities are listed on the Global Exchange Market of the Irish Stock Exchange) on the Daily Official List of the Irish Stock Exchange (so long as its rules require) 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.

Interest non-cumulative

The cancellation of any Interest Amount (or any part thereof) in accordance with Condition 4(a), this Condition 6(a) or Condition 9(a)(i) shall not constitute a default for any purpose on the part of the Issuer. For the avoidance of doubt, interest payments under the Securities 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.

(b) Interest Rate and Interest Payment Dates

The Securities bear interest on their outstanding principal amount:

(i) from and including the Issue Date to but excluding 25 May 2022 (the "**First Reset Date**"), at the rate of 9.125 per cent. per annum (the "**Initial Interest Rate**"); and

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

in each case, payable, subject to Conditions 4(a), 6(a) and 9(a)(i), in equal instalments semi-annually in arrear on 25 May and 25 November of each year, commencing on 25 November 2017 (each an "**Interest Payment Date**"). The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

(c) Calculation of interest

Subject as provided in the final paragraph of this Condition 6(c), the relevant day-count fraction (the "**Day-Count Fraction**") shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (ii) two times the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

Interest in respect of any Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Conditions 4(a), 6(a) and 9(a)(i)) 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 4(a), 6(a) and 9(a)(i), the Interest Amount payable for each Interest Period commencing prior to the First Reset Date will (if paid in full) amount to £45.625 per Calculation Amount.

(d) Reset Interest Rate

The "**Reset Interest Rate**" in respect of any Reset Period will be the sum of the 5-year Mid-Swap Rate in relation to that Reset Period and the Margin, all as determined by the Agent Bank at approximately 11.00 a.m. (London time) on the Reset Determination Date (rounded to four decimal places with 0.00005 rounded down).

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

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

(A) the semi-annual mid-swap rate with a term of five years which appears on the Screen Page as at 11:00 a.m. (London time) on such Reset Determination Date; or

(B) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate on such Reset Determination Date;

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

(A) has a term of five years commencing on the relevant Reset Date;

(B) is in an amount that is representative of a single transaction in the relevant market at the relevant time 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);

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

"**Margin**" means 8.359 per cent. per annum;

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

"**Reset 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;

"**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) in its discretion after consultation with the Issuer; and

"**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.

(e) *Publication of Reset Interest Rate*

The Issuer shall cause the Agent Bank to give notice of the relevant Reset Interest Rate to the Issuer, the Agents, the Trustee and to any stock exchange 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 14 as soon as possible after its determination, but in no event later than the fourth Business Day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

(f) *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 regard 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.

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

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6, whether by the Reset Reference Banks (or any of them) or the Agent Bank or the Trustee or any agent appointed by 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 absence of wilful default) 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 (and, if so applicable, subject as provided in the Trust Deed), the Trustee or such agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

(h) *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 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 and replace it with another 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 another Agent Bank. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

(i) *Interest accrual*

Without prejudice to Conditions 4(a), 6 and 9, 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.

7. PAYMENTS

(a) *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. 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 7(a), 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.

Payments of any cash component of any Alternative Consideration shall be made in accordance with the provisions of Condition 9.

(b) 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 10 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 10) any law implementing an intergovernmental approach thereto and the Issuer will not be liable to Holders for any taxes or duties of whatever nature imposed or levied by such laws, agreements or regulations.

(c) No commissions

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition 7 or Condition 9.

(d) 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 by or on behalf of the Issuer.

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).

(e) Agents

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

(i) there will at all times be a Principal Paying and Conversion Agent;

(ii) there will at all times be a Paying Agent having a specified office in a European city;

(iii) there will at all times be a Transfer Agent; and

(iv) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 14.

8. REDEMPTION AND PURCHASE

(a) 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 8.

(b) Redemption at the option of the Issuer

The Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities on the First Reset Date or on any Interest Payment Date thereafter at their principal amount together with any Accrued Interest.

(c) Redemption for regulatory reasons

If at any time a Capital Disqualification Event has occurred and is continuing, the Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities at their principal amount together with any Accrued Interest.

A "**Capital Disqualification Event**" shall occur if there is a change in the regulatory classification of the Securities which becomes effective on or after the Issue Date that results, or would be likely to result, in the whole or any part of the principal amount of the Securities being excluded from the Issuer's Tier 1 Capital under the Regulatory Capital Requirements, subject, in the case of a redemption occurring prior to the First Reset Date, to the Issuer demonstrating to the satisfaction of the Supervisory Authority that such exclusion was not reasonably foreseeable as at the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition 8(c), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Securities pursuant to this Condition 8(c) have been met and the Trustee shall accept the certificate without further inquiry 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.

(d) Redemption for tax reasons

If at any time a Tax Event has occurred and is continuing, the Issuer may, in its sole discretion but subject to Condition 8(f), having given not less than 30 nor more than 60 days' notice to Securityholders in accordance with Condition 14, the Trustee and the Agents (which notice shall, subject to Condition 8(f), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Securities at their principal amount together with any Accrued Interest.

A "**Tax Event**" shall occur if the Issuer determines that, as a result of any change in, or amendment to, the laws or regulations of a Taxing Jurisdiction, including any treaty to which such Taxing Jurisdiction is a party, or any change in the application of such laws by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes effective or in the case of a change in law, if such change is enacted by a United Kingdom Act of Parliament or by Statutory Instrument, on or after the Issue Date (a "**Tax Law Change**") and, in the case of a redemption occurring prior to the First Reset Date, the Issuer demonstrates to the satisfaction of the Supervisory Authority that such Tax Law Change is material and was not reasonably foreseeable as at the Issue Date:

(i) the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, Additional Amounts in respect of the Securities;

(ii) the Issuer is not or would not be entitled to claim a deduction in computing its taxable profits and losses in respect of interest payable on the Securities, or such a deduction is or would be reduced or deferred;

(iii) 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;

(iv) the Issuer treats or would be required to treat any part of the Securities as 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;

(v) 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 conversion of the Securities into Ordinary Shares, the write-down of the Securities or both; or

(vi) 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 8(d), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions precedent for redeeming the Securities pursuant to this Condition 8(d) 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.

(e) Purchases

The Issuer or any of its Subsidiaries may, at its option but subject to the Solvency Condition and 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. 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.

(f) Conditions to redemption

Any redemption under Condition 8(b), 8(c) or 8(d) is subject to obtaining Regulatory Approval and compliance with the Regulatory Preconditions. In addition, if the Issuer has elected to redeem the Securities and:

(i) the Solvency Condition is not satisfied in respect of the relevant payment on the date scheduled for redemption; or

(ii) prior to the redemption a Trigger Event occurs,

the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and the Issuer shall give notice thereof to the Securityholders (in accordance with Condition 14), the Trustee and the Agents as soon as practicable.

(g) Cancellation

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

(h) Notices final

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

(i) Trustee not obliged to monitor

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

9. CONVERSION

(a) Conversion on a Trigger Event

If a Trigger Event occurs 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:

(i) any accrued and unpaid interest up to (and including) the Conversion Date (whether or not such interest has become due for payment) shall be automatically cancelled; and

(ii) the Issuer shall issue, by way of conversion of the Securities (as more fully described in Condition 9(b)), on the Conversion Date to the Settlement Shares Depositary to be held for the Securityholders such number of Ordinary Shares as is equal to the aggregate principal amount of the Securities divided by the Conversion Price rounded down to the nearest whole number of Ordinary Shares, and each Security shall, subject to and as provided in this Condition 9, thereby be irrevocably discharged and satisfied.

As used herein:

"**Conversion**" means the conversion of the Securities into Ordinary Shares pursuant to this Condition 9 and "**convert**" and "**converted**" shall be construed accordingly; and

"**Conversion Price**" means, at any time, the conversion price of £3.199 as most recently adjusted (if at all) pursuant to Condition 9(d).

The Issuer shall, as soon as reasonably practicable following a determination that a Trigger Event has occurred, and in any event not more than five days following such determination (provided that later notice shall not constitute a default under the Securities for any purpose or affect the Conversion of the Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 14, the Trustee and the Agents (the "**Trigger Event Notice**") stating: (i) that the Trigger Event has occurred; (ii) the Conversion Date and details of the Settlement Shares Depositary; (iii) the prevailing Conversion Price (which Conversion Price shall remain subject to any subsequent adjustment pursuant to Condition 9(d) up to the Conversion Date); and (iv) the procedures that Securityholders will need to follow to receive Ordinary Shares from the Settlement Shares Depositary pursuant to Condition 9(c).

Fractions of Ordinary Shares will not be delivered in connection with any Conversion and no cash payment or other adjustment will be made in lieu thereof, whether on a Winding-Up or otherwise. However, if one or more Conversion Notices and relevant Certificates are delivered to the Settlement Shares Depositary such that any Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, as applicable) to be issued and delivered to a Holder 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.

The Issuer will maintain all corporate authorities necessary to issue and allot a sufficient number of Ordinary Shares, free from pre-emption rights and all other encumbrances, pursuant to this Condition 9(a).

The Securities are not convertible into Ordinary Shares at the option of the Securityholders at any time.

(b) Consequences of a Conversion

(i) If the Trigger Event occurs, the Securities will be converted in whole and not in part on the Conversion Date as provided in this Condition 9, at which point all of the Issuer's obligations under the Securities shall be irrevocably discharged and satisfied by the Issuer's issuance and delivery of the relevant Ordinary Shares to the Settlement Shares Depositary on the Conversion Date.

In the circumstances where these Conditions contemplate the appointment of a Settlement Shares Depositary, the Issuer shall use all reasonable endeavours promptly to appoint such Settlement Shares Depositary. If, however, the Issuer has been unable to appoint a Settlement Shares Depositary, it shall make such other arrangements for the issuance and delivery of the Ordinary Shares to be issued and delivered upon Conversion (or any Ordinary Share component 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 to be held for the Securityholders or to the Securityholders directly, which issuance and delivery shall irrevocably discharge and satisfy all of the Issuer's obligations under the Securities as if the relevant Ordinary Shares had been issued and delivered to the Settlement Shares Depositary 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 Depositary shall be construed accordingly and apply *mutatis mutandis*.

(ii) Provided that the Issuer issues and delivers the relevant Ordinary Shares to the Settlement Shares Depositary in accordance with these Conditions, with effect from 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 be reduced to, and at all times thereafter equal, zero until the Securities are cancelled as provided herein.

(iii) Prior to giving the Trigger Event Notice, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Trigger Event has occurred and the Trustee shall 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.

(iv) The Ordinary Shares to be issued and delivered on Conversion shall (except where the Issuer has been unable to appoint a Settlement Shares Depositary as contemplated in Condition 9(b)(i)) initially be registered in the name of the Settlement Shares Depositary, which shall hold such Ordinary Shares for 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 Depositary.

Provided that the Issuer so issues and delivers the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary as aforesaid, with effect on and from the Conversion Date, Holders shall have recourse only to the Settlement Shares Depositary for the delivery to them of such Ordinary Shares or, subject to and as provided in Condition 9(c)(v), the Alternative

Consideration to which they are entitled. Subject to Condition 9(b)(i), if the Issuer fails to issue and deliver the Ordinary Shares to be issued and delivered on Conversion to the Settlement Shares Depositary on the Conversion Date, a Holder'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 Depositary on the Conversion Date as aforesaid, the Securities shall remain in existence 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 Depositary and the Issuer enforcing any rights that it may have against Securityholder under Condition 9(c)(ix) below.

(v) Subject to and as provided in Condition 9(b)(iv), the Settlement Shares Depositary shall hold the Ordinary Shares issued and delivered on Conversion for the Securityholders. Such Securityholders shall, for so long as such Ordinary Shares are held by the Settlement Shares Depositary, be entitled to receive any ordinary dividends paid on such Ordinary Shares but shall not otherwise be entitled to direct the Settlement Shares Depositary to exercise on their behalf any rights of an ordinary shareholder (including voting rights) unless and until such time as the relevant Ordinary Shares have been delivered to Securityholders in accordance with Condition 9(h).

(c) Conversion Settlement

(i) Upon Conversion, the Issuer shall redeem the Securities at a price equal to their principal amount and the Securityholders shall be deemed irrevocably to have directed and authorised the Issuer to apply such sum on their behalf in paying up the relevant Ordinary Shares to be issued and delivered to the Settlement Shares Depositary on Conversion of their Securities.

(ii) In order to obtain delivery from the Settlement Shares Depositary of Ordinary Shares or, as applicable, the relevant Alternative Consideration following a Conversion, Securityholders will, subject to Condition 9(c)(ix), be required to deliver to the Settlement Shares Depositary (or an agent designated for the purpose in the Trigger Event Notice) a Conversion Notice and the relevant Certificate representing the relevant Security in accordance with Condition 9(h).

The relevant Ordinary Shares or, as applicable, the relevant 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.

(iii) If not previously cancelled on the relevant Settlement Date, the relevant Securities shall be cancelled on the Long-Stop Date and any Holder seeking to obtain Ordinary Shares or, as applicable, the relevant Alternative Consideration thereafter shall be required to provide such evidence as to entitlement to such Ordinary Shares or, as applicable, the relevant Alternative Consideration as the Settlement Shares Depositary may reasonably require in its sole discretion.

(iv) 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 shall be made by the Settlement Shares Depositary in its sole discretion and shall be conclusive and binding on the relevant Securityholder(s).

(v) Not later than the third Business Day prior to the Conversion Date, the Issuer may, in its sole and absolute discretion, make an election by giving notice to the Holders of the Securities in accordance with Condition 14 (a "**Conversion Shares Offer Election Notice**") that the Settlement Shares Depositary (or an agent on its behalf) will, in the Issuer's sole and absolute discretion, make an offer to all or (in the Issuer's sole and absolute discretion) some of the Issuer's existing Shareholders at such time for such Shareholders to purchase or acquire all or some of the Ordinary Shares to be

delivered on Conversion, 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**").

(vi) A Conversion Shares Offer Election Notice shall specify the period of time for which the Conversion Shares Offer will be open (the "**Conversion Shares Offer Period**"). The Conversion Shares Offer Period shall end no later than 40 Business Days after the giving of the Conversion Shares Offer Election Notice by the Issuer.

(vii) Upon expiry of the Conversion Shares Offer Period, the Settlement Shares Depositary will provide notice to the Holders of the Securities in accordance with Condition 14 and to the Trustee and the Principal Paying and Conversion 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 on trust by the Settlement Shares Depositary for the Securityholders. The cash component of any Alternative Consideration shall be payable by the Settlement Shares Depositary to the Holders of the Securities in pounds sterling and whether or not the Solvency Condition referred to in Condition 4(a) is satisfied.

(viii) The Issuer reserves the right, in its sole and absolute discretion, to elect that the Settlement Shares Depositary 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 Business Days' notice to the Holders in accordance with Condition 14 and to the Trustee and the Principal Paying and Conversion Agent and the Settlement Shares Depositary may then, in its sole and absolute discretion, take steps to deliver to Holders 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.

(ix) By virtue of its holding of any Security, each Holder acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Settlement Shares Depositary, 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 Depositary on trust for the Securityholders, to the Settlement Shares Depositary 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 Depositary to one or more purchasers identified by the Settlement Shares Depositary in connection with the Conversion Shares Offer; (iii) irrevocably agreed that the Issuer and the Settlement Shares Depositary 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 Holders in respect of the Conversion Shares Offer (except for the obligations of the Settlement Shares Depositary in respect of the Holders' entitlement to, and the subsequent delivery of, any Alternative Consideration).

If the Issuer elects to conduct a Conversion Shares Offer, each Holder, by virtue of its holding of any Security, irrevocably agrees that it shall not require (or seek to require) delivery of any Ordinary Shares held by the Settlement Shares Depositary until the expiry of the Conversion Shares Offer Period.

Any Conversion Shares Offer shall only 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.

(x) The Trustee shall not be responsible for monitoring any Conversion Shares Offer, nor for monitoring or enforcing the obligations of the Settlement Shares Depositary or any other person 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.

(d) Adjustments to the Conversion Price

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

(i) If and whenever there shall be a consolidation, subdivision, reclassification or redesignation in relation to the Ordinary Share which alters the number of Ordinary Shares in issue, 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, reclassification or 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, reclassification or redesignation, as the case may be.

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

(ii) 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:

(A) 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; or

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

(C) 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.

(iii) If and whenever the Issuer shall pay any Extraordinary Distribution 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 Price of one Ordinary Share on the Specified Date (as defined below); 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 (the relevant such date, the "**Specified Date**").

(iv) If and whenever the Issuer shall issue Ordinary Shares to holders of any Ordinary Shares as a class by way of rights, or the Issuer or (at the direction or request of, or pursuant to any arrangements with, the Issuer) any other company, person or entity shall issue or grant such holders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any such 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 such 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 per cent. of the Current Price per Ordinary Share of that class 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 Specified Relevant Ordinary Shares are listed (the relevant such date, 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 total number of Ordinary Shares in issue on the Ex-Date;

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 in each case as determined by the Issuer in good faith, would purchase at such Current 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 9(d)(iv), 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.

(v) Notwithstanding paragraphs (i) to (iv) above, and (vi) below, no adjustment to the Conversion Price will be made:

(A) as a result of (1) the creation of any new class of share in the Issuer, or (2) the occurrence of any of the events referred to in paragraphs (i) to (iv) above in respect of any class of share which is not the subject of the relevant paragraph;

(B) as a result of the payment of any Cash Distribution (other than an Extraordinary Distribution);

(C) 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;

(D) if an increase in the Conversion Price would result from such adjustment, except in the case of a consolidation of Ordinary Shares; or

(E) to such extent as would result in the Conversion Price being reduced below the nominal value of an Ordinary Share (and, for the avoidance of doubt, in circumstances where this paragraph (E) prevents an adjustment being made in full, the Conversion Price will be adjusted so as to equal the nominal value of an Ordinary Share),

and provided further that:

(A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 9(d) 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;

(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 (i) to ensure than an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once, and (ii) to reflect a redenomination of the issued Ordinary Shares for the time being into a new currency; and

(C) for the avoidance of doubt, the issue of Ordinary Shares upon a Conversion or upon any conversion or exchange in respect of any other securities or the exercise of any other options, warrants or other rights shall not result in an adjustment to the Conversion Price.

(vi) If any doubt shall arise as to whether an adjustment is required to be made to the Conversion Price under (i) to (iv) above 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.

(vii) On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.0001, shall be rounded down to the nearest integral multiple of £0.0001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one 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 14 and the Trustee and the Agents promptly after the determination thereof.

The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would result in an adjustment to the Conversion Price to below the nominal value of an Ordinary Share for the time being.

(viii) 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.

(ix) All determinations by an Independent Adviser pursuant to, or in respect of, these Conditions shall be deemed to be determinations made by an expert and not by a trustee or fiduciary for the Holders or any other person. No Independent Adviser shall be liable to the Issuer, the Trustee, the Holders or any other person in respect of any such determination made by it except in the case of the wilful default or fraud of the Independent Adviser.

(x) In any circumstances where these Conditions require a determination to be made by an Independent Adviser, the Issuer shall use all reasonable efforts to appoint such Independent Adviser for such purpose. If, however, the Issuer demonstrates to the satisfaction of the Trustee that, notwithstanding such reasonable efforts, the Issuer has been unable to appoint an Independent Adviser at that time, the relevant determination shall instead be made by the Issuer acting in good faith. The Trustee shall be entitled to rely on any such determinations made by the Issuer as if such determinations had been made by an Independent Adviser and the Trustee shall suffer no liability for doing so.

(e) Qualifying Relevant Event

(i) 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 9(e) *mutatis mutandis* as provided in this Condition 9) 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 9(a) 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 12(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 9(e)(vi)(D) below) and, for the avoidance of doubt, shall not discharge any liabilities owed to the Trustee or any provisions of the Trust Deed that are specified as surviving the termination of the Trust Deed. 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.

(ii) The New Conversion Price shall be subject to adjustment in the circumstances provided in Condition 9(d) (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 14), the Trustee and the Agents of the New Conversion Price and of any such modifications and amendments.

(iii) In the case of a Relevant Event where the Acquiror is an Approved Entity:

(A) the Issuer shall 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 9 (as may be so supplemented, amended or modified) at the New Conversion Price; and

(B) 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 9, as may be supplemented, amended or modified as provided above.

The Trustee shall (at the expense of the Issuer and provided that the Trustee is satisfied that the effect of such amendments will be only that the Securities shall be convertible into, or exchangeable for, the Relevant Shares of the Approved Entity as provided in Condition 9(e)(iii)(A) above) be bound to 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, power, right or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the Securities.

(iv) In the case of a Non-Qualifying Relevant Event, with effect from the occurrence of the Relevant Event and unless a Conversion Date 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 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, 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) and 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 or to any interest or other amount so cancelled.

(v) 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 14 and to the Trustee and the Agents. The Relevant Event Notice shall specify:

(A) the identity of the Acquiror;

(B) whether the Relevant Event is a Qualifying Relevant Event or a Non-Qualifying Relevant Event;

(C) in the case of a Qualifying Relevant Event, the New Conversion Price.

(vi) As used in these Conditions:

(A) "**Acquiror**" means the person which, following a Relevant Event, controls the Issuer;

(B) "**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;

(C) "**EEA Regulated Market**" means a regulated 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;

(D) the "**New Conversion Condition**" shall be satisfied if 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 the Settlement Share Depositary for the Securityholders upon a Conversion of the Securities, all as contemplated in Condition 9(e)(i);

(E) "**New Conversion Condition Effective Date**" means the date with effect from which the New Conversion Condition shall have been satisfied;

(F) "**New Conversion Price**" means the higher of (A) NCP determined by the Issuer in accordance with the following formula and (B) the nominal amount of one Relevant Share:

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

where:

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 consecutive 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 consecutive Trading Days ending on the Trading Day prior to the date the Relevant Event shall have occurred;

(G) "**Non-Qualifying Relevant Event**" means a Relevant Event that is not a Qualifying Relevant Event;

(H) "**Qualifying Relevant Event**" means a Relevant Event where: (A) the Acquiror is an Approved Entity; and (B) the New Conversion Condition is satisfied;

(I) "**Regulated Market**" means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state;

(J) 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

(K) "**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.

(f) 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 and the Trust Deed. The Trustee shall (at the expense of the Issuer and provided that the Trustee is satisfied that the effect of such amendments will be only that the 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 and the Trust Deed) be bound to 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, power, right or indemnity afforded to, or any other provisions in favour of, the Trustee under the Trust Deed, the Conditions and/or the Securities.

(g) Taxes etc.

The Issuer shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising in any jurisdiction on Conversion or that may arise or be paid as a consequence of the issue and delivery of Ordinary Shares upon Conversion and/or the payment of any Alternative Consideration. A Securityholder must pay all (if any) taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary on behalf of such Securityholder and all (if any) taxes or capital, stamp, issue, registration and transfer taxes and duties arising as a consequence 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 any interest therein).

(h) Delivery

The Ordinary Shares or, as applicable, any Ordinary Shares component of the Alternative Consideration to be delivered by or on behalf of the Issuer on Conversion will be issued and delivered or, as the case may be, paid

to the Settlement Shares Depositary (or as otherwise provided in these Conditions) on the Conversion Date to be held on trust for the Holders.

Such Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, if applicable) will be delivered 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 in certificated form.

Where any Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, if applicable) are to be delivered to Holders by the Settlement Shares Depositary through CREST, they will be delivered to the account specified by the relevant Securityholder in the relevant Conversion Notice, on the relevant Settlement Date.

Any cash component of any Alternative Consideration shall be paid by transfer to a sterling account with a bank that processes payments in sterling in accordance with the instructions contained in the relevant Conversion Notice.

The Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, if applicable) 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 depositary 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).

(i) Ordinary Shares

The Ordinary Shares (or any Ordinary Share component of any Alternative Consideration, if applicable) issued and delivered on Conversion will be fully paid and non-assessable and will in all respects rank pari passu with the relevant fully paid Ordinary Shares in issue on the Conversion Date, except in any such case as provided in Condition 9(b)(v) and for any right excluded by mandatory provisions of applicable law, and except that any Ordinary Shares so issued and delivered will not rank for (or, as the case may be, the relevant Holder shall not be entitled to receive) any rights, distribution or payments the record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

(j) Purchase or Redemption of Ordinary Shares

The Issuer or any Subsidiary of the Issuer may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares or securities of the Issuer (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Securityholders.

10. TAXATION

(a) 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 (each, a "**Taxing Jurisdiction**"), 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 (but not principal) on the Securities as may be necessary in order that the net amounts 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:

(i) 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 Taxing Jurisdiction other than the mere holding of the Security;

(ii) where (in the case of a payment of interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the 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

(iii) 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.

(b) Additional Amounts

Any reference in these Conditions to any amounts (including Interest Amounts) payable in respect of the Securities shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 10 or under any undertakings given in addition to, or in substitution for, this Condition 10 pursuant to the Trust Deed.

11. 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.

12. NON-PAYMENT WHEN DUE AND WINDING-UP

The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed, these Conditions and/or the Securities. The restrictions on commencing proceedings described below will not apply to any such claim.

(a) Proceedings for Winding-Up

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 being that set out in Condition 5(a) or 5(b), as applicable.

(b) Enforcement

Without prejudice to Condition 12(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 or these Conditions (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) 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 12(b) shall, however, prevent the Trustee from instituting proceedings for the Winding-Up, proving in any Winding-Up or exercising rights under Condition 5(a) or, as applicable, Condition 5(b) 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) in the circumstances provided in Condition 12(a).

(c) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 12(a) or 12(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, these Conditions and/or the Securities 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 aggregate principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) Right of Securityholders

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 12.

(e) Extent of Securityholder's remedy

No remedy against the Issuer, other than as referred to in this Condition 12, 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.

13. 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.

14. 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 Global Exchange Market of the Irish Stock Exchange or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any such notices delivered to the Global Exchange Market of the Irish Stock Exchange will also be published on the Daily Official List of the Irish Stock Exchange for so long as its rules so require. 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.

15. MEETINGS OF SECURITYHOLDERS, MODIFICATION AND WAIVERS

(a) 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.

(b) Modification, authorisation, waiver

Except where the Trustee is bound pursuant to Conditions 9(e)(iii) and 9(f) to give effect to the amendments described therein, the Trustee may agree (other than in respect of a Reserved Matter), without the consent of the 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.

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.

(c) 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 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

(d) Notification to the Securityholders

Any modification, abrogation, waiver, authorisation or substitution referred to in this Condition 15 or in Condition 16 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 14.

(e) Newco Scheme

In the event of a Newco Scheme, the Issuer may, subject as provided in Condition 16 and the Trust Deed, without the consent of Securityholders, at its option, procure that Newco is substituted under such Securities as the Issuer.

At the request of the Issuer, the Trustee shall, at the expense of the Issuer, without the requirement for any consent or approval of the Securityholders, be bound to concur with the Issuer in the substitution in place of the Issuer (or any previous substituted company) as principal debtor under the Trust Deed and the Securities of Newco, subject to the provisions set out in Condition 9(f) and Condition 16.

16. SUBSTITUTION OF THE ISSUER

The Trust Deed contains provisions (in the case of (i) below) requiring the Trustee and (in the case of (ii) below) permitting the Trustee (subject to Regulatory Approval), to agree, without the consent of the Securityholders, to:

(i) any substitution as provided in and for the purposes of Condition 15(e); or

(ii) the substitution of the Issuer's successor in business in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the Securities,

subject to:

(a) (in the case of (ii) only) the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Securityholders; and

(b) (in the case of (i) and (ii)) certain other conditions set out in the Trust Deed being complied with.

In the case of such a substitution, the Trustee may agree, without the consent of the Securityholders, to a change of the law governing the Securities and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Securityholders.

17. RIGHTS OF THE TRUSTEE

(a) Indemnification and protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the 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 or security 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.

(b) Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the 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.

(c) 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.

(d) Mandatory modifications

When implementing any modification pursuant to Condition 9(e)(iii)(A) or 9(f), 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 or for any losses incurred by any person by reason thereof, irrespective of whether any such modification is or may be prejudicial to the interests of any such person and/or is or may be a Reserved Matter.

(e) Trustee's remuneration, liability etc

The provisions of Conditions 4 and 5 apply only to the principal and interest and any other amounts payable in respect of the Securities and nothing in Conditions 4, 5, 7 or 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligations in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest or other amounts by reason of Condition 4(a) or Condition 6(a), Conversion pursuant to Condition 9 or any cancellation of the Securities or write down of any claims in respect thereof following the occurrence of a Non-Qualifying Relevant Event pursuant to Condition 9(e)(iv). Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with any of the foregoing.

18. FURTHER ISSUES

The Issuer may from time to time without the consent of the Securityholders create and issue further securities either 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 or upon such other terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of issue. 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.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) 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.

(b) 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.

20. RIGHTS OF THIRD PARTIES

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

21. DEFINITIONS

In these Conditions:

"**5-year Mid-Swap Rate**" has the meaning given to it in Condition 6(d).

"**5-year Mid-Swap Rate Quotations**" has the meaning given to it in Condition 6(d).

"**Accrual Date**" has the meaning given to it in Condition 6(c).

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

"**Acquiror**" has the meaning given to it in Condition 9(e)(vi)(A).

"**Additional Amounts**" has the meaning given to it in Condition 10(a).

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

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

"**Agent**" means the Registrar 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 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 any jurisdiction in connection with the issue and delivery of Ordinary Shares to the Settlement Shares Depositary 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 any jurisdiction in connection with the delivery of Ordinary Shares to the Settlement Shares Depositary 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 Depositary should carry out a Conversion Shares Offer;

"**Approved Entity**" has the meaning given to it in Condition 9(e)(vi)(B).

"**Assets**" has the meaning given to it in Condition 4(a).

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

"**Business Day**" has the meaning given to it Condition 6(d).

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

"**Capital Disqualification Event**" has the meaning given to it in Condition 8(c).

"**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.

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

"**Code**" has the meaning given to it in Condition 7(b).

"**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 as at such date, less any deductions from common equity tier 1 capital of the Issuer required to be made as at 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 at any date, the ratio of Common Equity Tier 1 of the Issuer as at such date to the Risk Weighted Assets of the Issuer as at 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**" has the meaning given to it in Condition 9(a).

"**Conversion Date**" means the date specified as such in the Trigger Event Notice in accordance with Condition 9(a), being a date no later than one month (or such shorter period as the Supervisory Authority may then require) from the occurrence of the relevant Trigger Event.

"**Conversion Notice**" means a notice in the form for the time being currently available from the specified office of any Agent and which is required to be delivered by (or on behalf of) a Securityholder to the Settlement Shares Depositary (or its agent(s) designated for the purpose in the Trigger Event Notice) in connection with a Conversion of the Securities and which may contain a representation that the relevant Holder is entitled to take delivery of the Ordinary Shares in the manner contemplated in these Conditions and has obtained all (if any) consents needed in order to do so.

"**converted**" has the meaning given to it in Condition 9(a).

"**Conversion Price**" has the meaning given to it in Condition 9(a).

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

"**Conversion Shares Offer Election Notice**" has the meaning given to it in Condition 9(c)(v).

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

"**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 Price**" means, in respect of an Ordinary Share as at any date the average daily VWAP of such Ordinary Share on each of the five consecutive Trading Days ending on the Trading Day immediately preceding such date.

"**Day-Count Fraction**" has the meaning given to it in Condition 6(c).

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

"**Distributable Items**" has the meaning given to it in Condition 6(a).

"**EEA Regulated Market**" has the meaning given to it in Condition 9(e)(vi)(C).

"**Ex- Date**" has the meaning given to it in Condition 9(d)(iv).

"**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.

"**Existing Perpetual Bonds**" means the Issuer's £15,000,000 7.875% Reset Perpetual Subordinated Bonds (ISIN: GB00B67JQX63) and £22,000,000 6.591% Perpetual Subordinated Bonds (ISIN: GB00B61ZXL72) in issue at the Issue Date.

"**Existing Subordinated Liabilities**" means the Issuer's subordinated, unsecured loan notes in issue at the Issue Date in an aggregate principal amount outstanding of £36.9 million.

"**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 any 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 in Condition 6(b)(i).

"**Independent Adviser**" means any independent investment bank of international standing, 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 6(b)(i).

"**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 6(b).

"**Interest Period**" has the meaning given to it in Condition 6(b).

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

"**Issue Date**" means 25 May 2017.

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

"**Liabilities**" has the meaning given to it in Condition 4(a).

"**Long-Stop Date**" means the date on which any Securities in relation to which no duly completed Conversion Notice has been received by the Settlement Shares Depositary (or its designated agent(s)) shall be cancelled, which date is expected to be no more than 60 Business Days following the date of the Conversion Notice and which will be notified to Holders in the Trigger Event Notice.

"**Margin**" has the meaning given to it in Condition 6(d) .

"**New Conversion Condition**" has the meaning given to it in Condition 9(e)(vi)(D).

"**New Conversion Condition Effective Date**" has the meaning given to it in Condition 9(e)(vi)(E).

"**New Conversion Price**" has the meaning given to it in Condition 9(e)(vi)(F).

"**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 9(e)(vi)(G).

"**Notional Preference Share**" has the meaning given to it in Condition 5(a).

"**Ordinary Shares**" means the ordinary voting shares in the capital of the Issuer (or, in the event of an Exempt Newco Scheme, the ordinary shares of the Newco).

"**Parity Obligations**" means any obligations of the Issuer (including guarantee or other support obligations) which rank, or are expressed to rank, *pari passu* with the Issuer's obligations in respect of the Securities on a winding-up of the Issuer prior to a Trigger Event (and, for the avoidance of doubt, shall include any other Additional Tier 1 Capital securities of the Issuer (if any) from time to time outstanding).

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

"**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 and Conversion Agent**" means Elavon Financial Services DAC, acting through its UK branch, or such other principal paying and conversion 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 19(b).

"**Qualifying Relevant Event**" has the meaning given to it in Condition 9(e)(vi)(H).

"**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 7(a).

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

"**Registrar**" means Elavon Financial Services DAC 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 9(e)(vi)(I).

"**Regulatory Approval**" means such supervisory permission required within prescribed periods from 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.

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

(i) the Issuer having replaced the Securities with own funds instruments of equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or

(ii) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer 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

(iii) if, at the time of such redemption, the prevailing Regulatory Capital Requirements permit the redemption after compliance with one or more alternative or additional pre conditions to those set out in paragraphs (i) and (ii) of this definition, the Issuer having complied with such other pre-condition.

"**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 or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders in accordance with Condition 14.

"**Relevant Event**" has the meaning given to it in Condition 9(e)(vi)(J).

"**Relevant Event Notice**" has the meaning given to it in Condition 9(e)(v).

"**Relevant Shares**" has the meaning given to it in Condition 9(e)(vi)(K).

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

"**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 6(d) .

"**Reset Interest Rate**" has the meaning given to it in Condition 6(d) .

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

"**Reset Reference Bank Rate**" has the meaning given to it in Condition 6(d).

"**Reset Reference Banks**" has the meaning given to it in Condition 6(d).

"**Risk Weighted Assets**" means, as at any date, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Issuer 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 6(d).

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

"**Securityholder**" or "**Holder**" means the person in whose name a Security is registered.

"**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 (including those in respect of the Existing Perpetual Bonds and the Existing Subordinated Liabilities outstanding on the Issue Date) 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, with respect to a Holder seeking to obtain Ordinary Shares or Alternative Consideration, as the case may be, from the Settlement Shares Depositary (or its agent), the second Business Day after the day on which such Holder delivers the relevant Conversion Notice to the Settlement Shares Depositary (or its agent).

"**Settlement Shares Depositary**" means a financial institution, trust company or similar entity (which in each such case is independent of the Issuer) of recognised international or national standing to be appointed by the Issuer on or prior to any date when a function ascribed to the Settlement Shares Depositary in these Conditions is required to be performed to perform such functions and that will hold the Ordinary Shares (and any Alternative Consideration, if any) on trust for the Holders of the Securities in one or more segregated account and otherwise on terms consistent with these Conditions.

"**Shareholders**" means the holders of Ordinary Shares.

"**Solvency Condition**" has the meaning given to it in Condition 4(a).

"**Subsidiary**" means each subsidiary undertaking (as defined under section 1159 of the Companies Act 2006) for the time being of the Issuer.

"**successor in business**" has the meaning given to it in the Trust Deed.

"**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.

"**Tax Event**" has the meaning given to it in Condition 8(d).

"**Taxes**" has the meaning given to it in Condition 10(a).

"**Taxing Jurisdiction**" has the meaning given to it in Condition 10(a).

"**Tax Law Change**" has the meaning given to it in Condition 8(d).

"**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.

"**Transfer Agent**" means Elavon Financial Services DAC, acting through its UK Branch or such other transfer agent appointed by the Issuer from time to time in respect of the Securities in accordance with these Conditions.

"**Trigger Event**" means, at any time, the Common Equity Tier 1 Capital Ratio of the Issuer falls below 7 per cent., as determined by the Issuer or by the Supervisory Authority and notified to the Issuer, such determination to be binding on the holders of the Securities.

"**Trigger Event Notice**" has the meaning given to it in Condition 9(a).

"**Trustee**" means U.S. Bank Trustees Limited or such other or additional trustee appointed from time to time in respect of the Securities in accordance with the Conditions and the Trust Deed.

"**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 that:

(i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which 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);

(ii) following the appointment of an administrator of the Issuer, an administrator gives notice that it intends to declare and distribute a dividend; or

(iii) liquidation or dissolution of the Issuer or any procedure similar to that described in paragraph (i) or (ii) of this definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009.

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 6(c).

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 14 provided that, for so long as the Securities are listed on the Global Exchange Market of the Irish Stock Exchange or on any other stock exchange and the rules of that stock exchange so require, notices will also be given in accordance with any applicable requirements of such stock exchange. Any such notices delivered to the Global Exchange Market of the Irish Stock Exchange will also be published on the Daily Official List of the Irish Stock Exchange for so long as its rules so require. 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.

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 Trigger Event Notice referred to in Condition 9(a) 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 Trigger Event Notice) and the notice requirements contained in Condition 9(c) shall be amended accordingly (including that notice shall be given, if required, of any amendment to Long-Stop Date previously specified in the Trigger Event Notice).

The Issuer may specify a Suspension Date in the Trigger Event 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 Trigger Event 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 Alternative Consideration, if applicable, following a Conversion of the Securities shall be made by the Conversion Shares Depositary 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 Depositary by electronic means) and in a form acceptable to the applicable Clearing System(s) and the Conversion Shares Depositary.

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 10 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 7(a) 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 to further optimise the Issuer's capital stack to continue to support the general corporate purposes of the Group, including the growth of the Group's business.

DESCRIPTION OF ONESAVINGS BANK'S BUSINESS

INFORMATION ON THE ISSUER AND THE GROUP

Incorporation and activity of the Issuer

The Issuer was incorporated and registered in England and Wales under the Companies Act 2006 (the "**Companies Act**") as a private company limited by shares on 13 July 2010 under the name Sevco 5067 Limited, with registered number 07312896. The Issuer changed its name to OneSavings Limited on 3 August 2010.

The Issuer re-registered as a public company limited by shares with the name OneSavings plc on 8 October 2010 and, on 1 February 2011, the Issuer changed its name to OneSavings Bank plc. On 10 June 2014, the Group successfully completed an initial public offering on the Main Market of the London Stock Exchange plc.

The Issuer is domiciled in the UK. Its registered office and head office is at Reliance House, Sun Pier, Chatham, Kent ME4 4ET (telephone number: 01634 848 944).

The principal legislation under which the Issuer operates is the UK Companies Act 2006 and regulations made thereunder. The Issuer operates in conformity with its constitution. The Issuer became the holding company of the Group on 1 February 2011.

History and development of the Group

The Kent and Canterbury Building Society was established in 1847 as a traditional building society and grew through a series of mergers with the Chatham Reliance (established 1898), Dover District (established 1861) and Herne Bay (established 1888) to form the Kent Reliance Building Society.

In 2002, Kent Reliance Building Society acquired the Standard Chartered Grindlays mortgage business in Jersey and Guernsey, which was subsequently rebranded as Jersey Home Loans and Guernsey Home Loans.

The Group was formed on 1 February 2011 and, following a capital investment of £50 million by funds advised by private equity house, J.C. Flowers & Co. LLC acting through its controlled and majority-owned entity, OSB Holdco Limited (the "**Major Shareholder**"), the Kent Reliance Building Society transferred its business to a new entity, OneSavings Bank Plc. As part of this transaction, the members of the Kent Reliance Building Society became members in Kent Reliance Provident Society ("**KRPS**"), which, as at the date of this Information Memorandum, holds approximately 0.46 per cent. of the Issuer's issued share capital.

Since February 2011, the Group has expanded its customer offering through the following developments:

- the acquisition of InterBay Commercial, a specialist semi-commercial/commercial lender, in August 2012;
- the acquisition of the Prestige Group, an established second charge lender, in September 2012; and
- the establishment of Heritable Development Finance, a provider of specialist residential development finance, in December 2013.

In 2004, Kent Reliance Building Society set up Easiprocess Pvt Limited, an Indian subsidiary, with its main operations in Bangalore, to provide cost-efficient operational and back office support to its building society operations. In September 2015, Easiprocess Pvt Limited was renamed OSBIndia Pvt Limited. The Group's Indian operations focus only on providing administrative support to the rest of the Group.

On 10 June 2014, the Group successfully completed a £134 million initial public offering (the "**IPO**") on the Main Market of the London Stock Exchange plc. The IPO comprised a new issue of approximately 24 million Ordinary Shares at an issue price of 170 pence per Ordinary Share and the sale of approximately 55 million shares by the Major Shareholder. Based on the issue price of the ordinary shares at the time of the IPO, the market capitalisation of the

Group was approximately £413 million. As at close of trading on 19 May 2017, the market capitalisation of the Group is approximately £1,115.77 million.

Overview of the Group's Business

The Group, which is headquartered in Chatham, Kent, is a specialist lending and retail savings group serving the UK, Jersey and Guernsey.

The Group is authorised by the PRA, part of the Bank of England, and regulated by the FCA and began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society were transferred to the Issuer.

The Group focuses its specialist lending activities on selected sub-sectors of the lending market in which it has an established presence and expertise, and where opportunities have been identified for both high, risk-adjusted returns and strong growth. The Group's specialist segments include Residential Mortgages (comprising bespoke first charge mortgages, second charge mortgages and shared ownership mortgages) and Buy-to-Let/SME. Participation in these specialist lending segments requires bespoke underwriting, experienced teams and strong relationships with specialist distributors; capabilities that are firmly and broadly established within the Group. The Group acquired the former Northern Rock performing consumer finance portfolio from UK Asset Resolution Limited in July 2013. This portfolio of high-margin, seasoned loans currently represents the Group's only unsecured lending, with the exception of short-fall account, and is serviced by a third party specialist servicer.

The Group originates almost all of its organic lending through specialist intermediaries (for Group branded products) the exception being development finance which is originated directly with experienced developers. The Group also originates organic lending through Secured Funding Lines (for third party branded products). While the focus is on organic growth, the Group has also demonstrated its capability and expertise to increase the size of its loan portfolio and to extend its lending franchise profitably through inorganic growth (selectively purchasing loan portfolios).

The Group is predominantly funded by retail savings originated through the long established Kent Reliance brand, which includes online and postal channels, as well as a small network of branches in the South East of England. Diversification of funding is currently provided by the Bank of England's FLS which the Group joined as a mortgage collateral counterparty in 2014, the Bank of England's TFS scheme which the Group was accepted to in November 2016, and through access to a securitisation programme. The Issuer had drawn down £524.6 million from the FLS and £101.0 million from the TFS at the end of 2016 to help fund the Group's loan book growth.

A robust control and risk environment is in place to support the Group's current requirements and future growth strategy. The majority of the Group's administrative support functions are performed by its wholly owned operations in Bangalore, India, over which the Group's management retains close oversight. The Group has made a number of transformative changes to create a centre of excellence in customer service and process efficiency, improving processes through automation, and changes in staff training and skill development including the introduction of service quality performance and bonus based performance management schemes.

The Group's retail savings and lending businesses are offered under the following brands:

KentReliance

InterBay Commercial

Heritable Development Finance

Prestige Finance

Guernsey Home Loans

Jersey Home Loans

OneSavings Bank business model

The Group operates in underserved sub-sectors of the UK lending market

Since the financial crisis, some specialist lending sub-sectors have been underserved by certain of the large and medium-sized UK retail banks and building societies, which have focused on core markets (such as non-bespoke mainstream residential mortgage lending) and automation of processes as they have sought to deleverage their balance sheets in part by reducing their overall lending activities. In addition, unlike certain of the medium-sized and larger banks and building societies, the Group does not use automated and scorecard-based processes when underwriting new loans, and is therefore better equipped to operate in the sub-sectors which it serves, which require bespoke, manual underwriting. The ability to provide bespoke, manual underwriting enables the Group to react quickly and flexibly to the non-standard requests which are more common in these sub-sectors.

The lending market in the UK has, the Issuer believes, a number of underserved sub-sectors which grow both on a cyclical basis and, in some cases, a structural basis. Structural growth (i.e. overall growth in the market size regardless of the economic cycle) is driven by long-term trends such as the rise of privately rented households in the UK, which help drive growth in the Buy-to-Let market (both pre- and post-financial crisis), and changes in the labour force participation patterns in the United Kingdom (social and demographic change, reduction of long-term "normal" employment in stable jobs with corresponding rises in part-time work, self-employed work, contract work and economic migrants), and regulatory and fiscal changes supporting the growth of professional, multi-property landlords which drives the need for more specialist manual underwriting approaches. Cyclical growth is growth which is affected by the economic cycle. The sub-sectors in which the Group operates which have been subject to cyclical growth include second charge mortgage lending, semi-commercial/commercial lending and property development finance.

A focus on specialist mortgage products producing higher returns in comparison to non-specialist mortgage products

The Group focuses on a number of specialist mortgage markets and lending products, offered across the Group's brands, comprising:

- private rented sector Buy-to-Let;
- commercial and semi-commercial;
- residential development finance;
- bespoke specialist residential lending;
- second charge residential lending; and
- shared ownership.

New origination in these specialist markets has produced higher returns, in comparison to non-specialist mortgage products.

As a result of the Group's expertise in these specialist products and its focus on bespoke underwriting, as well as the Group's relatively low operational costs, the Issuer believes that it will continue to achieve high returns in the specialist mortgage and lending sub-sectors in which the Group currently operates.

The Group benefits from long-established and strong relationships with intermediaries

The Group benefits from long-established and strong relationships with a network of third party intermediaries, which form the distribution channel for the majority of its organic loan origination. The Group's Chief Executive Officer, Andy Golding, and Chief Operating Officer, Clive Kornitzer, have both held senior management positions at John Charcol (one of the UK's largest mortgage brokers) and have a clear understanding of the primary concerns and wishes of intermediaries.

In particular, the Issuer believes that the close working relationship that the Group has developed with its network of intermediaries allows it to remain at the forefront of innovation in respect of products in the sub-sectors in which it operates. The Group's underwriters provide a responsive and personalised service to these intermediaries to find bespoke solutions for the intermediaries' customers. The Group's regular engagement with intermediaries also means that the Group is considered a key supplier by those intermediaries when recommending suitable products to their customers.

The Group operates a bespoke, people-led underwriting model

Through the Group's bespoke, people-led underwriting model, with limited reliance on automated underwriting, it is able to respond to intermediaries' requests quickly and efficiently to ensure that its customers get a high quality of service.

The Group's Transactional Credit Committee meets twice a week to review large or complicated underwriting requests which allows the Group to deliver a service advantage to its intermediary partners and their clients.

An established and stable retail savings franchise providing access to reliable, lower cost funding

Through the Kent Reliance brand, the Group has the benefit of an established and stable savings franchise, with retail deposits of £6.0 billion. The Group's savings franchise provides a platform from which its specialist lending franchises can grow. Stability, consistency and a relatively low cost of funding are seen by the Group as sources of competitive advantage versus certain other lenders who rely in whole or in part on wholesale funding, such as bank warehouse lines and securitisation funding. The Group benefits from high levels of loyalty from its retail savings customers and achieved an average retention rate of 87 per cent. of fixed term deposit maturities in the 2016 financial year. This established retail savings franchise provides relative stability of funds and has enabled the Group to access additional retail funding quickly and efficiently. In November 2016, the Group launched business savings accounts enabling it to add deposits from private limited companies.

The Group considers that the perception of its Kent Reliance brand, mutual heritage and branch network are important differentiators in the competitive savings market. A number of those customers who access the Group through its direct channels have an awareness of the Group's history and physical presence on high streets in the South East of England. The Group believes that these differentiators give the Group a distinct brand identity compared to certain of the Group's direct-only competitors.

A cost efficient and scalable operating model

The Group's product-focused specialist business model allows it to operate at a lower cost-to-income ratio than many other banks and is structured to deliver maximum efficiency with outstanding customer experience, avoiding the heavy investment required to compete in current account banking (and the corresponding compliance and customer relationship management capital expenditure that is required). The Group achieved a cost-to-income ratio of 27 per cent. as at 31 December 2016 (2015: 26 per cent.). The Group is able to concentrate on its key processes and has developed a shared infrastructure across its brands, leveraging core capabilities:

- providing a responsive service to intermediaries;
- underwriting mortgages; and
- running savings products efficiently.

In addition, the Group's approach of using intermediaries to distribute its lending products also means that it does not need to employ a large number of employees or to operate a large branch network to market and sell its products, so helping to minimise overheads.

The Group maintains an operations function in India (established in 2004), based in Bangalore, which provides low cost and stable administrative support to the Group. In particular, the Indian operations provide operational support including primary servicing and processing, customer enquiries, IT support, data analytics and some human resources

and finance team support. All control function teams maintain close day-to-day interaction with the UK, with reporting lines to the Group's UK-based management. As at 31 December 2016, the Group had 276 employees in India (compared with 453 employees in the UK), with a significantly lower average compensation cost per head than in the UK. The Group's low cost-to-income ratio model is due to focus on cost discipline and efficiency and this Indian back office function, and the directors believe that there is significant potential to leverage the Group's Indian operations further, and are exploring moving additional functions, including some of the less complex processes necessary for the Group's lending activities, to India. The Group will also be able to increase the output of its Indian operations without material capital expenditure by adding flexibility to shift patterns to enable extended operating hours and utilising the increased workspace in the new premises in Bangalore which were occupied at the beginning of 2016.

A strong balance sheet with high quality collateral

The Group continues to focus on achieving long-term stable levels of profit and the strength of its risk assessment process is a key element in achieving this goal. The Group has a strong balance sheet underpinned by high quality collateral, with a weighted LTV ratio of 63 per cent. as at 31 December 2016. The Group has limited exposure to high value properties, with only 2 per cent. of the total loan book secured on properties valued at greater than £2 million and with an LTV above 65 per cent.

The majority of the Group's mortgage lending is secured against property in London and the South East of England. There remains an imbalance between the supply and demand for residential sales property in these regions, which has created a strong excess demand for properties in the Private Rented Sector.

The loans organically originated by the Group after its formation in February 2011 have exhibited low arrears due in part to the Group's bespoke underwriting processes, together with an increased focus on collections and arrears management. As at 31 December 2016, only 91 of these 29,000 organically originated loans were more than three months in arrears – defined as 90 days past due – with a total of £8.6 million (2015: 48 loans, £5.1 million) and an average LTV ratio of 60 per cent.

The Group maintains appropriate levels of capital with strong liquidity ratios

The Group maintains levels of regulatory capital[4] which are above its financial objective and in excess of its regulatory requirements with a Common Equity Tier 1 Capital Ratio on a fully-loaded basis of 13.3 per cent. as at 31 December 2016 (11.6 per cent. as at 31 December 2015). This increase was primarily due to the Group's disposal of its entire economic interest in the Rochester Financing No. 1 plc securitisation, as further described under *"The Group's lending franchise – Inorganic origination"* below.

The Bank had a total capital ratio of 15.1 per cent. and a leverage ratio of 5.5 per cent. as at 31 December 2016 (31 December 2015: 14.1 per cent. and 4.5 per cent. respectively). The Bank has a Pillar 2A requirement of 1.2 per cent. of RWAs.

The Group operates under the PRA's liquidity regime by maintaining a target liquidity runway in excess of the minimum regulatory requirement. The Group's liquidity ratio as at 31 December 2016 was 17.9 per cent. (compared with a ratio of 16.4 per cent. as at 31 December 2015). The Group continues to diversify its funding through the FLS and TFS and had drawn down £524.6 million from the FLS and £101.0 million from the TFS at the end of 2016.

An experienced management team with a strong risk management background

The Group has an experienced Executive Management Team, who have been integral to the growth of the Group's business following the Group's formation in 2011 and who have adopted a clearly defined strategy for the Group. The Executive Management Team is led by Andy Golding (Chief Executive Officer) who is supported by April Talintyre (Chief Financial Officer).

Other key members of the dynamic and cohesive management team include Clive Kornitzer (Group Chief Operating Officer), John Eastgate (Sales and Marketing Director), Jens Bech (Group Commercial Director), Hasan Kazmi (Chief

4 Regulatory capital is the Core Tier I Ratio calculated as Core Tier 1 capital as a percentage of RWAs.

Risk Officer), Jason Elphick (Group General Counsel and Company Secretary), Richard Wilson (Group Chief Credit Officer), Richard Davis (Chief Information Officer), and Lisa Odendaal (Head of Internal Audit).

The Group's Executive Management Team has many years of operating experience in UK retail and SME lending and deposit taking, complemented by high quality risk, credit, finance and compliance professionals with backgrounds from Goldman Sachs, Morgan Stanley, Oliver Wyman, Deloitte, Santander and the HMT Asset Protection Agency. The directors believe that, through its experienced management team, the Group is well-positioned to continue to execute the Group's strategy and grow the business. Further details of the Group's executive management's experience are set out below.

The Group's strategy

To be a leading UK specialist lender in chosen sub-sectors

The Group's strategy is to be a leading specialist lender to consumers, entrepreneurs and SMEs, primarily funded by its long-standing, stable savings franchise. Responsible lending is and will continue to be integral to the Group's lending strategy, supported by its underwriting philosophy, strong credit quality controls for non-standard borrowers and its objective to treat customers fairly. In the future, the Group intends to continue its focus on the Buy-to-Let/SME lending sub-sectors where the Group believes that the best opportunities exist for high returns on a risk-adjusted basis.

The Group regularly evaluates opportunities to grow its share of the specialist lending sub-sectors in which it currently operates, as well as to move into new specialist sub-sectors, exploiting its funding advantage, unique operating model, bespoke underwriting capabilities, risk management culture and ability to adapt quickly. The Group has demonstrated its ability to enter new markets, through the hiring of teams or people or business acquisitions, such as InterBay Commercial in August 2012, Prestige Finance in September 2012 and the creation of Heritable Development Finance in December 2013. The Group has also partnered with several niche finance companies providing secured funding lines to other lenders that operate in certain high yielding, specialist sub-segments, such as residential bridge finance and asset finance. Total credit approved limits for funding lines were £330.2 million with total loans outstanding of £122.3 million as at 31 December 2016 (2015: £185.4 million and £125.8 million respectively).

The Group also acquired portfolios of first and second charge residential mortgages for the total of £180.7 million in 2016 and will continue to actively consider inorganic opportunities in this segment as they arise.

Retaining its focus on bespoke and responsive underwriting

Bespoke and responsive underwriting processes are integral to the Group's principal strategy to be a leading UK specialist lender. The Group will retain a focus on carrying out bespoke, manual underwriting, recognising that this expertise is necessary to be a leader in the specialist sub-sectors in which the Group operates. The Group will also retain a focus on providing a responsive service to intermediaries and will continue to work closely with intermediaries to assess carefully the financial circumstances of each underlying client. Through this iterative process, involving its Credit Committee where appropriate, the Group will continue to deliver bespoke underwriting solutions for the intermediaries' clients, whilst retaining a responsible and conservative approach to collateral quality.

Deepen existing relationships with intermediaries

The Group originates almost all of its organic lending through specialist intermediaries. The Group recognises the important role that these intermediaries play and how important it is that the Group continues to develop and maintain these relationships. The Group will continue to provide a personal, responsive service to the intermediaries with whom it works. The Group will seek to deepen its existing relationships with intermediaries and will conservatively expand the panel of intermediaries with whom it works.

Maintain and develop the Group's established savings franchise as a growing and stable source of funding

The Group recognises that an established and resilient savings franchise represents the foundation on which its lending franchises can prosper. The Group's strategy is to maintain and develop its savings franchise by continuing to offer a multi-channel approach, which includes its physical branch presence in the South East of England, as well as maintaining its online and direct channels. The Group will also continue to offer competitive new savings products to

both retail and corporate customers and preferential terms for the renewal of existing products as compared to the open market.

In line with its mutual heritage, the Group will continue to eschew 'new customer only' savings products and focus on minimising customer turnover, ensuring that there are limited barriers to switching savings products and offering long-term good value rates for existing long-standing customers. The Group intends to continue its community engagement and charitable initiatives nationally and with the various charities in Kent, thereby helping to maintain the regional character and brand identity in the South East of England.

Leverage its operational structure to continue to deliver cost efficiency as the Group grows

The Group intends to leverage its current operational structure to enhance cost efficiency, which will enable it to maintain its low cost-to-income ratio and thereby continue to deliver high, risk-adjusted returns on equity as its business grows. The Group's objective is to maintain its unique operating model, as well as increasing the scale and scope of the support functions carried out by its wholly-owned and operated Indian operations. The Group's strategy is to migrate basic mortgage and lending servicing tasks to India from the UK. The Issuer believes that there remain substantial opportunities to enhance the scale of its Indian support operations, and optimise the use of time differences by adding flexibility to shift patterns to enable extended operating hours and utilising the increased workspace at the new premises in Bangalore. In addition, the significant skills base of highly trained graduates in Bangalore will continue to provide further scope for growing the existing value-added support functions such as human resources, compliance, finance, risk data analytics and information technology. The Group will also continue to develop its online offering of savings accounts and products but does not currently intend to expand its branch network.

Continue delivering high, risk-adjusted returns

The Group's strategy is to be a leading specialist lender in its chosen sub-sectors through organic origination, as well as through new markets where the Issuer believes that it can achieve high, risk-adjusted returns. The Group's objectives for 2017 are to achieve net loan book growth of at least mid-teens whilst maintaining Net Interest Margin ("**NIM**") and cost-to-income ratio broadly flat to that achieved in 2016. It intends to maintain its existing conservative risk profile, a minimum fully loaded CRD IV Common Equity Tier 1 capital ratio of 12 per cent. The Group believes it remains well placed to take advantage of opportunities that arise using these well-proven capabilities.

Having established a high quality board, management team, scalable systems and a low-cost operating platform as well as risk management and compliance infrastructure fit for purpose for a significantly larger balance sheet than the Group currently enjoys, the Issuer believes that the Group is well-placed to deliver continued growth of the business.

The Group's operations

The Group offers a range of savings products and specialist lending products and organises its operations as described below.

(a) **The Group's retail savings franchise**

The Group's retail savings franchise comprises online and direct distribution, a physical branch presence, supported by 150 years of heritage in the Kent Reliance brand and long-standing customer relationships, all supported by a low-cost offshore processing platform in Bangalore, India. The Group's integrated and diversified distribution network enables its savings customers to choose how and when to undertake their transactions with it. As at 31 December 2016, the Group's retail deposits were £6.0 billion (£5.4 billion as at 31 December 2015). The Group receives deposits through a number of channels:

- online channels, which represented 32 per cent. of new deposits acquired in the 2016 financial year;
- direct channels (comprising postal and telephone deposits), which represented 37 per cent. of new deposits acquired during the 2016 financial year; and
- branches, which represented 31 per cent. of new deposits acquired in the 2016 financial year.

The Group offers a wide variety of fixed, notice, easy access and regular savings products, including ISAs, but has made a deliberate decision not to offer current accounts (given the significant level of additional infrastructure and cost that would be required). Consistent with its mutual heritage, the Group operates a savings product strategy which avoids the use of 'introductory bonuses' and 'new-customer only' offers that could create barriers to customers moving their money around within the Group, in favour of long-term value for money rates. This strategy, together with its established Kent Reliance brand, has helped the Group to achieve an average retention rate of 87 per cent. of fixed term deposit maturities in the 2016 financial year. The Group welcomed nearly 27,000 new customers during 2016 and the average balance of its savings customers was £30,134.

The Group has also been able to access additional funding quickly and efficiently, with the ability to raise significant levels of deposits on short timescales, as required, by offering new savings products with sufficiently attractive returns to ensure that they are placed towards the top of the "Best Buy" tables. At the same time, the trusted reputation of the Kent Reliance brand has enabled the Group to attract funding from new customers without having to operate at the top of the "Best Buy" savings tables (as newer or less recognisable brands have to do). In addition, the Kent Reliance savings brand received three major awards from Moneyfacts in both 2015 and 2016, including the flagship "Best Bank Savings Provider" for the second consecutive year and the "Best Cash ISA Provider" for the fourth year running.

The Group has seen significant growth in the amounts owed to retail depositors, which has enabled the Group to grow its specialist mortgage and loan offerings.

(b) **The Group's lending franchise**

The Group operates in multiple high-margin specialist lending sub-sectors, originating loans organically using a number of established Group brands and from time to time through Secured Funding Lines. The Group has also purchased third party-branded loan portfolios in the secondary market. The Group segments its lending by product, focusing on the customer's need and reason for a loan. The Group categorises its lending segments as Buy-to-Let/SME and Residential Mortgages.

(i) ***The Group's lending philosophy***

Specialism is a key component of how and in which markets the Group chooses to lend. Its specialist markets are those in which lending products are less commoditised and more bespoke, and manual underwriting and detailed understanding of the customer and the collateral are critical to good lending.

Further, responsible lending is integral to the Group's lending philosophy and strategy. Lending is therefore based on an individual underwriter making the assessment that the customer has the ability to repay based on cash flow, has the behavioural propensity to repay based on his past behaviour and general profile, and provides the Group with sufficient collateral or lending margin to compensate for any risks arising from the first two criteria. Integral to this lending philosophy is treating customers fairly, based on a clearly identified customer lending need.

(ii) ***Buy-to-Let/SME***

The Buy-to-Let/SME segment comprises Buy-to-Let mortgages secured on residential property held for investment purposes by experienced and professional landlords, commercial mortgages secured on commercial and semi-commercial properties held for investment purposes or for owner occupation, residential development finance to small and medium sized developers and secured funding lines to other lenders. As at 31 December 2016, Buy-to-Let/SME was the largest segment, comprising 69 per cent. of the Group's loan book.

Certain key financial information in respect of the Buy-to-Let/SME segment's performance over the last two financial periods is as follows:

	2015 financial year £million	2016 financial year £million
Gross loans	3,105.5	4,094.9
Risk weighted assets	1,435.1	1,936.6
Net interest income	95.2	132.0
Contribution to profit	89.3	130.2

(A) Buy-to-Let mortgages

The Group originates own brand Buy-to-Let mortgages via mainstream and specialist intermediaries. The Group utilises the Kent Reliance brand in the main UK Buy-to-Let market and the Jersey Home Loan and Guernsey Home Loan brands in the Jersey and Guernsey Buy-to-Let market, respectively.

The Group's Buy-to-Let lending comprises residential investment property lending to prime credit quality borrowers. Its target market is experienced and professional landlords or high net worth individuals with established and extensive property portfolios. It also includes lending to limited companies subject to the provision of personal guarantees.

During 2016, the Group continued to increase its product development focus on the professional landlord community. The Group has also tightened criteria for non-professionals.

The Group's specialist Buy-to-Let products also include houses in multiple occupation ("**HMOs**"), student accommodation and loans to expatriates (generally UK citizens who wish to turn their UK residence into a rental property while working overseas).

The Group's Buy-to-Let loan portfolio grew by £902.8 million in 2016 to a gross value of £3,613.3 million as at 31 December 2016 (31 December 2015: £2,710.5 million).

(B) Commercial and semi-commercial

The Group provides commercial and semi-commercial property loans to individuals and limited companies in the UK through the InterBay brand. InterBay, acquired in 2012, focuses on the commercial broker community, lending to customers with investment properties, semi-commercial (part residential and part commercial properties) or commercial properties. Commercial lending requires specialist expertise to understand the assets, quickly assess a true valuation and evaluate the financial profile of the borrower. As well as bringing these specialist capabilities to the Group, the acquisition of InterBay included a portfolio of semi-commercial and commercial mortgages.

The Group's exposure to commercial real estate is limited, at a gross value of £268.3 million as at 31 December 2016 (31 December 2015: £230.2 million) and the Group's portfolio has a low weighted average LTV of 59 per cent. and average loan size of £270,000.

(C) Residential development finance

The Group acquired the operating infrastructure, systems and staff of Heritable Partners Limited in December 2013 and began development finance lending in early 2014. Heritable Partners Limited was established in 2012 by the former management team of the structured property finance unit of Heritable Bank Plc to work out and recover the structured property finance loan book of Heritable Bank which went into administration in 2008, following the failure of its Icelandic parent bank, Landsbanki.

This sub-sector requires specialist case assessment, a clear understanding of the development process and ongoing management throughout the life of the loan. The Group employs seven specialist underwriters with an average of approximately 16 years' experience in this sub-sector.

The Group provides development loans to small and medium-sized developers of residential property in the South of England through the Heritable Development Finance brand. Loans are staged with independent chartered surveyors signing off each stage of the development before funds are released.

The Group's residential development funding gross loan book as at 31 December 2016 was £141.6 million, with a further £70.0 million committed (2015: £95.0 million and £43.3 million respectively).

(D) Buy-to-Let/SME secured funding lines

The Group provides secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as bridging finance and asset finance. The terms of the secured funding lines require the third party lender to abide by strict criteria for underwriting of the underlying loan. The advance rate varies depending on the quality of the underlying assets.

As at 31 December 2016, the Group had total loans outstanding of £71.7 million with total credit approved limits of £244.0 million (2015: £69.8 million and £116.0 million respectively).

(iii) Residential Mortgages

The Residential Mortgages segment comprises lending to owner occupiers, secured via either first or second charges against the residential home. This segment also includes funding lines to non-bank lenders who operate in high-yielding, specialist sub-segments such as residential bridge finance.

Certain key financial information in respect of the Residential Mortgage segment's performance over the last two financial periods is as follows:

	2015 financial year £million	2016 financial year £million
Gross loans	2,007.1	1,859.9
Risk weighted assets	858.6	798.7
Net interest income	69.0	71.4
Contribution to profit	60.7	59.5

(A) Bespoke first charge mortgages

The Group originates residential mortgages organically, principally through specialist intermediaries. The Group uses the Kent Reliance brand in the UK for first charge mortgages, the Prestige brand for second charge mortgages and the Jersey Home Loan and Guernsey Home Loan brands in Jersey and Guernsey, respectively, for first charge mortgages. Lending in Jersey and Guernsey requires specialist local market knowledge due to the different risk characteristics, tax and legal frameworks. All underwriting and broker liaison with the local Jersey and Guernsey mortgage brokers is undertaken from the UK.

Under the Kent Reliance brand in the UK, the Group distributes specialist first charge mortgages through mainstream and specialised brokers. These high margin products include bespoke residential and shared ownership mortgages.

Bespoke residential lending requires specialist expertise and detailed bespoke underwriting to assess the complex financial profile of the borrower and includes:

- lending to UK high net worth customers, sometimes with non-standard incomes, who typically require larger loans, with a London or South East England bias, thereby providing these customers with an alternative to private banks who may require pooling of assets under management; and

- lending to non-UK citizens resident in the UK working in well-paid jobs.

The Group's first charge residential book had a gross value of £1,322.1 million as at 31 December 2016 (2015: £1,433.2 million).

Shared ownership lending

The Group also offers shared ownership lending in the UK through its Kent Reliance brand. Shared ownership lending comprises lending to borrowers who are buying a residential property in conjunction with a housing association. Borrowers are often key workers in areas, such as London, where property prices are many multiples of average income. Lending requires specialist knowledge of regulations, processes, and housing association expectations and requirements, in particular in relation to recoveries. Through a mortgage protection clause in the shared ownership lease, the Group is able to recover losses from the housing association's share of equity in the event that there is a shortfall on sale of the property.

(B) Second charge mortgages

The Prestige Group was acquired by the Group in September 2012 and is the Group's lending platform for second charge mortgages. Prestige operates through intermediaries typically specialising in second charge mortgages and has dedicated interactive intermediary IT systems and underwriting processes. Borrowers are typically seeking to fund a major purchase or home improvement or to consolidate and reschedule other consumer debt without refinancing their existing first charge mortgage as it often carries a low interest rate margin.

The Group's second charge residential loan book had a gross value of £487.2 million as at 31 December 2016 (2015: £517.8 million).

(C) Residential secured funding lines

The Group also from time to time originates mortgages organically through Secured Funding Lines, subject to agreed lending and underwriting criteria. The Group provides Secured Funding Lines to other lenders through the OneSavings Bank brand, secured against pools of loan collateral. The terms of the Secured Funding Lines require the third party lender to abide by strict criteria for underwriting of the underlying loan. The advance rate varies depending on the quality of the underlying assets.

Secured Funding Lines provide indirect access to certain high yielding, specialist segments, such as residential bridge finance. As at 31 December 2016, the Group had total loans outstanding of £50.6 million with total credit approval limits of £86.2 million (2015: £56.1 million and £69.4 million respectively).

(iv) ***Inorganic origination***

The Group also acquires mortgages inorganically through selective portfolio purchases, following extensive due diligence in each case. Since 2011, the Group has purchased a number of mortgage portfolios, following extensive due diligence in each case. The Group acquired the InterBay Group and Prestige Group mortgage portfolios through its acquisition in 2012 of those companies. The remaining acquired mortgage portfolios are serviced either within the Group or under the Reliance Property Loans brand by specialist third party servicers who provide administrative and management services to the Group, including processing customer data, handling inbound telephone calls from customers, processing correspondence, direct debit processing and providing monthly arrears statements. In aggregate, these portfolios have been acquired at a significant discount to par and predominantly comprise relatively high-yielding (in comparison to the Kent Reliance Building Society inherited portfolios), well-seasoned mortgages which were originated prior to the start of the financial crisis in 2007.

The portfolios display on average higher levels of arrears than the Group's organically originated mortgage portfolio. However, the higher arrears portfolio is mitigated by either having a high cash yield or where the relevant loans were acquired at a significant discount to par.

In May 2016, the Group disposed of its economic interest in the Rochester Financing No. 1 plc securitisation ("**Rochester 1**") recognising the value in some of the purchased mortgage portfolios, purchased in aggregate at deep discounts. The transaction generated exceptional pre-tax gain of £34.7 million.

(v) ***Personal loans***

This segment makes up the Group's unsecured lending, which currently comprises the former Northern Rock performing consumer finance portfolio of approximately 10,000 customers and which was acquired from UK Asset Resolution Limited in July 2013. These seasoned, high-margin, individually small, amortising, medium duration unsecured loans, serviced by a professional third party servicer are in fast run-off. This portfolio represents the Group's only unsecured loans. The portfolio had a carrying value of £9.1 million (after collective provisions) as at 31 December 2016 (2015: £42.1 million).

The underwriting process

The underwriting process commences with the broker entering its application into the origination system. A simple assessment of the application is carried out and either a decision is issued in principle or the case is referred for bespoke underwriting.

The underwriting team has extensive collective experience and adopts a manual underwriting process specifically geared for each individual customer.

Bespoke underwriters review all non-standard product applications (which include UK ex-patriates, HMOs, individuals with complex income situations). The Group employs specialist underwriters with deep expertise of its lending products, who interact directly with the intermediaries where required.

The Group operates varying mandate levels dependent upon the type of loan. First charge individual exposures up to £1.5 million are either approved by the Group Underwriting Director or the Transactional Credit Committee if above £1.5 million. The Transactional Credit Committee is chaired by the Group Underwriting Director and voting members are the Chief Executive Officer, the Chief Financial Officer, the Group Chief Operating Officer, the Chief Risk Officer, the Group Chief Credit Officer and the Group Underwriting Director. Other senior staff members will be invited to attend meetings as required.

Indian operations

The Group uses its Indian operations, which are based in Bangalore, to provide administrative and process support to its UK savings and lending businesses. As at 31 December 2016, the Group had 276 employees in its Indian operations. The Group's Indian operations have close day-to-day interaction with the UK and maintain functional reporting lines to the Group's UK management team. In addition, the significant skills base of highly trained graduates in Bangalore will continue to provide further scope for growing the existing value added support functions such as human resources, compliance, finance, data analytics and information technology.

The Group's Indian operations support its savings business by:

- carrying out all savings processing;
- taking all customer calls;
- processing all online instructions and emails;
- reviewing and processing the Group's post, which is scanned in the Group's Chatham office and then sent to India; and
- conducting compliance and fraud monitoring.

The Group's Indian operations support its lending business by:

- processing all mortgage payments;
- chasing late payments (after a loan is three payments in arrears it gets transferred back to the Group's special collections team in the UK);
- processing and responding to all standard queries from borrowers (such as balance queries); and
- conducting compliance and fraud monitoring.

In addition, the significant skills base of highly trained graduates in Bangalore provides support for value added support functions such as human resources, compliance, finance, data analytics and information technology.

Employees

As at 31 December 2016, the Group had 729 employees (UK and India).

Information technology

The Group is committed to maintaining high standards of data protection, client information and information security and aims to ensure that up to date security software and technologies are utilised. The Group has continued to invest in building long-term infrastructure and establishing a group-wide approach to information technology and security.

The Group's in-house information technology team manages its information technology infrastructure and various core banking applications. The technology team also work with specialist third party suppliers who provide mortgage origination, mortgage servicing, online savings and workflow systems. Third party supplier relationships also extend to the provision of network management and security monitoring.

A major upgrade programme to the Group's IT commenced in 2012 with enhancements to deliver further efficiency and growth via an infrastructure and application refresh programme. The upgrade provides a combination of expanding capacity of existing systems and implementing industry standard platforms. To date the programme has delivered a stable, scalable, monitored and secure infrastructure.

The key elements of the upgrade programme to the Group's IT infrastructure are now complete and include enhancements to its data centre, expansion of processing and storage capacity, improved offsite data recovery capabilities and improved network resilience and bandwidth. Alongside this programme there has been significant investment in the overall security infrastructure, including the appointment of an IT Security Manager.

The systems upgrade programme has included significant investment in the systems on which processing is undertaken, including: (i) implementation of industry standard systems for mortgage originations provided by DPR Consulting Limited; (ii) capacity expansion of the in-house Bastion savings system; (iii) further enhancements to workflow systems; (iv) new management information systems and analysis tools, which provide a foundation for enhanced reporting across the business; (v) a new online savings portal for customers; (vi) a new online savings proposition for corporate customers; and (vii) replacement of the existing mortgage servicing system with the industry standard Phoebus platform. The Group has already migrated two portfolios to Phoebus Software Limited (see below for further details) and the systems upgrade programme will continue in 2017 including the next portfolio of mortgages to be migrated from the existing mortgage servicing system.

The Issuer has invested in disaster recovery systems and processes in relation to its information technology systems which are regularly monitored and tested. Primary systems are backed up to a disaster recovery centre.

The Group relies on a number of third parties to provide IT services and software licences. In particular:

- Phoebus Software Limited provides a mortgage servicing system which is currently also used by the Group's development finance provider, Heritable Development Finance. A servicing system developed by Target Software is used at InterBay;
- Sota provides the Group with a disaster recovery location and hosting centre for websites;
- Bottomline provides the Group with payment systems for its direct debit services;
- Secureworks provides the Group with managed IT security monitoring services;
- NG Bailey provides a managed network support service;
- Tata and BT provide the group with data and voice circuits across the group sites; and
- DPR and Target provide origination systems to Kent Reliance and InterBay brands respectively, Prestige systems are developed in-house.

Dividend policy

The Issuer has adopted a dividend payout ratio to reflect the growth profile of the business and is currently targeting a dividend payout ratio of at least 25 per cent. of the underlying profit after taxation. There are no guarantees that the Issuer will pay dividends or regarding the level of any such dividends.

Dividend payments will be made on an approximate one-third:two-thirds split for interim and final dividends, respectively, with the first half being one-third of the previous full year dividend. At the 2015 Annual General Meeting, the shareholders approved the Issuer's proposal to commence dividend payments. On the basis of the 2016 results, a dividend for the six-month period to 30 June 2016 of 2.9 pence per ordinary share (30 June 2015: 2.0 pence) was paid in November 2016 and a final dividend of 7.6 pence per ordinary share has been recommended giving a total dividend for 2016 of 10.5 pence per ordinary share. The Issuer may revise its dividend policy from time to time.

RECENT DEVELOPMENTS

Release of trading update in respect of the first quarter of 2017

On 3 May 2017, the Group released its trading update for the first quarter of 2017 in respect of the period from 1 January 2017, which outlined growth in the Group's loan book of five per cent. to £6,222 million, organic lending origination of £599 million during the period and strong levels of new applications for the Group's mortgages that have

continued into the second quarter of 2017. The Group has drawn a total of £451 million under the Term Funding Scheme and drawings under the Funding for Lending Scheme have been reduced to £525 million as at 3 May 2017.

DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

Directors

The current members of the Board are:

Name	Position	Date of Birth
Rod Duke	Senior Independent Non-Executive Director and interim Non-Executive Chairman	5 May 1950
Andy Golding	Chief Executive Officer	3 January 1969
April Talintyre	Chief Financial Officer	20 September 1965
Graham Allatt	Independent Non-Executive Director	10 April 1948
Eric Anstee	Independent Non-Executive Director	1 January 1951
Andrew Doman	Independent Non-Executive Director	12 December 1951
Tim Hanford	Non-Executive Director	26 May 1964
Margaret Hassall	Independent Non-Executive Director	14 March 1961
Mary McNamara	Independent Non-Executive Director	30 August 1960
Nathan Moss	Independent Non-Executive Director	15 November 1955

The business address of each director is Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

The management expertise and experience of each director is set out in their biography below:

Rod Duke, Senior Independent Non-Executive Director and interim Non-Executive Chairman

Mr Duke joined OneSavings Bank in 2012 and was appointed as Senior Independent Non-Executive Director in 2014. Mr Duke was formerly a Group General Manager at HSBC plc with responsibility for UK distribution – branches, call centres and internet banking – for both personal and commercial customers. Mr Duke was with HSBC for 33 years and has extensive experience across retail and commercial banking. Mr Duke's previous directorships include VISA (UK), HFC Bank plc and HSBC Life. Mr Duke also served on the board of Alliance & Leicester plc until its takeover by Santander. Mr Duke is a Fellow of the Institute of Financial Services.

Mr Duke assumed the role of Chairman on an interim basis on 10 May 2017, following the resignation of Mike Fairey from the Board, until a successor is appointed.

Andy Golding, Chief Executive Officer

Mr Golding joined OneSavings Bank in 2011. Mr Golding has over 28 years' experience in financial services and has held senior positions at NatWest, John Charcol and Bradford & Bingley. Between 2004 and 2011, Mr Golding was the Chief Executive Officer of the Saffron Building Society. Mr Golding holds a number of positions with industry institutions including membership of the Building Societies Association's council and the Council of Mortgage Lenders executive committee. Mr Golding is also a Non-Executive Director of Kreditech Holding SSL GmbH, a Director of the Building Societies Trust and has also served as a Non-Executive Director for Northamptonshire NHS.

April Talintyre, Chief Financial Officer

Ms Talintyre joined OneSavings Bank in 2012. Prior to joining OneSavings Bank, Ms Talintyre worked for Goldman Sachs International for over 16 years, most recently as an Executive Director in the Rothesay Life pensions insurance business and prior to that as an Executive Director in the Controllers division in London and New York. Ms Talintyre began her career at KPMG in the general audit department and has been a Member of the Institute of Chartered Accountants in England and Wales since 1992.

Graham Allatt, Independent Non-Executive Director

Mr Allatt joined OneSavings Bank in 2014. Mr Allatt is a senior commercial and retail banker who worked in credit and risk roles at a number of the UK's major banks for 30 years, including being Acting Group Credit Director at Lloyds TSB and Chief Credit Officer at Abbey National. Prior to this he spent 18 years in the NatWest Group culminating in the role of Managing Director, Credit Risk at NatWest Markets. A qualified Chartered Accountant, Mr Allatt is Deputy Chairman of the Friends of the British Library and was involved in housing associations for nearly 30 years as treasurer and board of directors member in the North of England and in London.

Eric Anstee, Independent Non-Executive Director

Mr Anstee joined OneSavings Bank in 2015. Mr Anstee is a qualified accountant with over 40 years' experience, including senior positions at Ernst and Young, Old Mutual Plc, being the first Chief Executive of the Institute of Chartered Accountants in England and Wales. Mr Anstee was Chairman of CPP Group plc and prior to this, he was Chief Executive of the City of London Group plc. He is a current member of the Takeover Panel Appeals Board and a former member of the Board of the Financial Reporting Council. Mr Anstee is also Non-Executive Director of SunLife Financial of Canada Limited and Insight Asset Management.

Andrew Doman, Independent Non-Executive Director

Mr Doman joined OneSavings Bank in 2016. He is currently Chairman at Castle Trust Capital plc, Mr Doman is an experienced financial services executive and was formerly CEO of Premium Credit Limited and CEO, President and later Chairman of Frank Russell Company. Previously, Mr Doman was a senior director of McKinsey & Company, management consultants, based in the London office. Mr Doman focussed on the financial services sector, serving a number of leading banks, insurance companies and asset managers across a wide range of topics including strategy, performance improvement and risk. Mr Doman was formerly a Non-Executive Director of The Wesleyan.

Tim Hanford, Non-Executive Director

Mr Hanford joined OneSavings Bank in 2011. Mr Hanford is a Managing Director of J.C. Flowers & Co. UK LLP. His previous roles include Head of Private Equity at Dresdner Bank and a member of the Institutional Restructuring Unit's Executive Committee. Mr Hanford has also served as an Executive Director of various Schroders Group companies, based in London, Hong Kong and Tokyo, where he was responsible for structured finance. Mr Hanford holds an MS degree from Stanford University's Graduate School of Business, where he was a Sloan Fellow, and a BSc degree in Chemical Engineering from Birmingham University.

Margaret Hassall, Independent Non-Executive Director

Ms Hassall joined OneSavings Bank in 2016. Ms Hassall brings a broad range of experience developed across various industry sectors including manufacturing, utilities, and financial services. Ms Hassall spent seven years working for Deloitte and Touche as a consultant and led the financial services consulting business for Charteris Plc. More latterly Ms Hassall has been engaged as Chief Operations Officer or Chief Information Officer for divisions within some of the world's largest banks, namely Bank of America Merrill Lynch, Barclays and RBS. Ms Hassall is a Non-Executive Director for Ascension Trust (Scotland).

Mary McNamara, Independent Non-Executive Director

Ms McNamara joined OneSavings Bank in 2014. Ms McNamara was Chief Executive Officer of the Commercial Division and Board Director of the Banking Division at Close Brothers Group PLC, responsible for the Asset, Invoice and Leasing businesses in the UK and overseas from 2010 to 2013. Ms McNamara spent a year as Chief Operating Officer of Skandia, the European arm of Old Mutual Group and prior to that, 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance. Ms McNamara is a Non-Executive Director of Dignity plc and Motorpoint plc.

Nathan Moss, Independent Executive Director

Mr Moss joined OneSavings Bank in 2014. Mr Moss was Group Strategy Director at Friends Life from 2010 to 2013 responsible for group strategy, corporate development and innovation. A business development and marketing specialist he joined Scottish Widows in 2002 as Managing Director, Marketing & Distribution before becoming Managing Director of Wealth Management at Lloyds TSB Group in 2007, responsible for strategy and business performance. Prior to this Mr Moss spent 18 years with HSBC Group including four years as General Manager, Personal Financial Services, and culminating as Chief Operating Officer of Merrill Lynch HSBC, being responsible for the creation and launch of the global joint venture. Mr Moss has a degree in Industrial Economics from Nottingham University, and an MBA from Manchester Business School. Mr Moss is currently a Non- Executive Director of Homeserve Membership Ltd and Canada Life Group (UK) Ltd.

Mr Moss has tendered his resignation from the Board, which will be effective from 31 May 2017.

Senior managers

In addition to the executive directors listed above, each of the following persons is a senior manager and member of the Group's Executive Management Team:

Jens Bech, Group Commercial Director

Mr Bech joined OneSavings Bank as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014. Mr Bech joined OneSavings Bank from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of Chief Risk Officer. Prior to joining the Asset Protection Agency, Mr Bech spent nearly a decade at management consultancy Oliver Wyman where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Mr Bech led Oliver Wyman's support of Iceland during the financial crisis.

Jason Elphick, Group General Counsel and Company Secretary

Mr Elphick joined OneSavings Bank in June 2016. Mr Elphick has over 20 years of legal private practice and in-house financial services experience. Mr Elphick's private practice experience was primarily in Australia with King & Wood Mallesons and in New York with Sidley Austin, and he has been admitted to practice in Australia, New York and England and Wales. Mr Elphick's in-house financial services experience was most recently as Director and Head of Bank Legal at Santander in London. Prior to this Mr Elphick held various roles at National Australia Bank, including General Counsel Capital & Funding, Head of Governance, Company Secretary and General Counsel Product, Regulation and Resolution.

John Eastgate, Sales & Marketing Director

Mr Eastgate joined OneSavings Bank in 2012. Prior to joining OneSavings Bank, Mr Eastgate was Sales & Marketing Director at Saffron Building Society from 2008 until 2012. Between 2003 and 2008, Mr Eastgate was Head of Banking, Head of Mortgages and Group Account Director at Experian. He held the position of Practice Manager (Financial Services) at BroadVision UK Limited from 2001 until 2002. Between 1999 and 2001, Mr Eastgate was Senior Manager at Barclays.

Clive Kornitzer, Group Chief Operating Officer

Mr Kornitzer joined OneSavings Bank in 2013. Mr Kornitzer has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John Charcol and Bradford and Bingley. Prior to joining OneSavings Bank, Mr Kornitzer spent six years at Santander where he was the Chief Operating Officer for the intermediary mortgage business. Mr Kornitzer has also held positions at the European Financial Management Association and has been the Chair of the FS Forums Retail Banking Sub-Committee. Mr Kornitzer is a Fellow of the Chartered Institute of Bankers.

Hasan Kazmi, Chief Risk Officer

Mr Kazmi joined OneSavings Bank in September 2015 as Group Chief Risk Officer. Mr Kazmi has over 19 years of risk experience having worked at several financial institutions, including Barclays Capital, Royal Bank of Canada and Standard Chartered Bank. Prior to joining OneSavings Bank, Mr Kazmi was a Senior Director at Deloitte within the Risk and Regulatory practice with responsibility for leading the firm's enterprise risk; capital, liquidity, recovery and resolution practices. Mr Kazmi graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.

Richard Davis, Chief Information Officer

Mr Davis joined OneSavings Bank in 2013. Mr Davis has worked for 20 years in Financial services rising to Chief Information Officer at GE Money UK in 2004. He subsequently helped launch MoneyPartners (an Investec subsidiary), as IT Director, through to the eventual sale to Goldman Sachs. Prior to joining OneSavings Bank, Richard worked for 4 years at Morgan Stanley covering IT, Projects and Transaction Management for the European Residential business as an Interim Director.

Richard Wilson, Group Chief Credit Officer

Mr Wilson joined OneSavings Bank in 2013. Prior to joining OneSavings Bank, Mr Wilson was head of the credit function for Morgan Stanley's UK origination business and subsequently looked after Credit and Collections strategy within their UK, Russian and Italian businesses. Between 1988 and 2006, Mr Wilson held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.

Lisa Odendaal, Head of Internal Audit

Ms Odendaal joined OneSavings Bank in April 2016 as Head of Internal Audit. Prior to joining OneSavings Bank Ms Odendaal worked for Grant Thornton where she was an Associate Director within their Business Risk Services division. Ms Odendaal has over 20 years of internal audit and operational experience gained in the UK, UAE and Switzerland having worked at several financial institutions, including PwC, Morgan Stanley, HSBC and Man Investments.

Relationship with Major Shareholder and Relationship Agreement

The Major Shareholder entered into a relationship agreement with the Issuer with effect on admission of its shares following the IPO in June 2014 (the "**Relationship Agreement**"). The Relationship Agreement is intended to ensure that the Issuer and the Group are capable of carrying on business independently of the Major Shareholder for so long as the Major Shareholder holds a relevant interest.

Pursuant to the Relationship Agreement, the Issuer has agreed with the Major Shareholder that it may appoint one Non-Executive Director to the Board of Directors and to each of the Nomination and Governance committee and the Risk committee for so long as it (together with its respective affiliates) holds, directly or indirectly, at least 10 per cent. of the Issuer's ordinary shares and a further Non-Executive Director to the Board of Directors for so long as it holds, directly or indirectly, at least 30 per cent. of the Issuer's ordinary shares. As at the date of this Information Memorandum, Tim Hanford is the director appointed by the Major Shareholder pursuant to the Relationship Agreement.

Conflicts of interest

Although the external directorships and partnerships set out above are considered by the Board to represent potential conflicts of interest, as at the date of this Information Memorandum, they are not considered by the Board to represent actual conflicts of interest. The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

As well as being a Non-Executive Director of the Issuer, Tim Hanford is a Managing Director of J.C. Flowers & Co. UK LLP, an affiliate of J.C. Flowers III (which controls the Major Shareholder). Tim Hanford is a current JCF Director under the Relationship Agreement. JCF directors, as a result of their relationship with J.C. Flowers III, may have interests which conflict with those of the Group. The Board has approved those conflicts of interest which have arisen, or which may arise in the future, as a result of Tim Hanford's current relationships with J.C. Flowers III, in accordance with the Companies Act. The Relationship Agreement contains an obligation on each of the JCF directors to abstain from voting at any Board meeting on any matter giving rise to a conflict of interests. The Relationship Agreement contains obligations of confidentiality.

In addition, Andy Golding and April Talintyre are directors of Kent Reliance Provident Society ("**KRPS**"), which, as at the date of this Information Memorandum, holds 0.46 per cent. of the Issuer's Ordinary Shares. These Directors, as a result of their relationship with KRPS, may have interests which conflict with those of the Group. The Board has authorised those conflicts of interest which have arisen, or which may arise in the future, as a result of these Directors' relationship with KRPS, in accordance with the Companies Act.

Save as set out above, there are no actual or potential conflicts of interests between the duties of the directors or of the senior managers to the Issuer and the private interests and/or other duties that they may also have.

Committees of the Board of Directors

In accordance with the UK Corporate Governance Code and the PRA Handbook, the Board has established four committees: Audit, Risk, Remuneration and Nomination and Governance Committees, each with written terms of reference. If the need should arise, the Board may set up additional committees as appropriate.

Audit Committee

The Audit Committee currently comprises four members, all of whom are independent Non-Executive Directors: Graham Allatt, Eric Anstee, Andrew Doman and Nathan Moss. The committee is chaired by Eric Anstee.

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal financial control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board. The Audit Committee is required to meet at least four times a year, in line with the Group's financial reporting timetable.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with requirements of any quorum for and the right to attend meetings. The responsibilities of the Audit Committee covered in its terms of reference include the following: external audit, financial reporting, overseeing the Group's compliance and whistleblowing arrangements, monitoring internal controls and risk management systems. The terms of reference also set out the authority of the committee to carry out its responsibilities.

Risk Committee

The Risk Committee currently comprises six members, five of whom are independent Non-Executive Directors: Graham Allatt, Eric Anstee, Andrew Doman, Margaret Hassall, Mary McNamara, and April Talintyre. The committee is chaired by Graham Allatt.

The Risk Committee has responsibility for, among other things, oversight of the Group's risk appetite, risk monitoring and capital management. It focuses in particular on ensuring that the Group maintains a Strategic Risk Management Framework and maintains appropriate levels of capital in the Group, as well as advising the Board on the overall risk appetite. The Risk Committee meets at least six times a year, and more frequently if required. The ultimate responsibility for setting the Group's risk appetite remains with the Board.

The terms of reference of the Risk Committee cover such issues as membership and the frequency of meetings, as mentioned above, together with the requirements of any quorum for and the right to attend meetings. The responsibilities of the Risk Committee covered in its terms of reference include the following: risk appetite, risk management framework, approval of lending up to 20 per cent. of CET1 on a connected basis and capital and liquidity management oversight. The terms of reference also set out the authority of the committee to carry out its responsibilities.

Remuneration Committee

The Remuneration Committee comprises three members, all of whom are independent Non-Executive Directors: Rod Duke, Mary McNamara and Nathan Moss. The committee is chaired by Mary McNamara.

The Remuneration Committee has responsibility for setting the remuneration policy for all executive directors of the Group and the Chairman of the Board, the company secretary and all employees that are identified as Code Staff for the purposes of the PRA's Remuneration Code ("**Code Staff**" and the "**Code**" respectively) including pension rights and any compensation payments. The Board itself or, where required by the Articles, the shareholders should determine the remuneration of the Non-Executive Directors within the limits set in the Articles. No director or senior manager shall be involved in any decisions as to their own remuneration. The Remuneration Committee meets at least three times a year.

The terms of reference of the Remuneration Committee cover such issues as membership and frequency of meetings, as mentioned above, together with the requirements for quorum and the right to attend meetings. The responsibilities of the Remuneration committee covered in its terms of reference include the following: determining and monitoring policy on and setting levels of remuneration, termination, performance-related pay, pension arrangements, reporting and disclosure, share incentive plans and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities.

Nomination and Governance Committee

The Nomination and Governance Committee comprises four members, three of whom are independent Non-Executive Directors: Rod Duke, Tim Hanford, Mary McNamara and Nathan Moss. The committee is chaired by Rod Duke.

The Nomination and Governance Committee is delegated the responsibility to provide oversight and guidance for the Board on all matters of corporate governance relating to the Group not covered by other committees. This includes, but is not limited to ensuring that the Group adheres to best practice in relation to corporate governance in a manner that is proportionate to the size and complexity of the Group, and is in line with the UK Code on corporate governance, the requirements of the PRA and the FCA and the FCA in its capacity as the UK Listing Authority. The committee ensures the Board sets the tone from the top in relation to the values, ethics and culture of the business leading to a sustainable business. The committee also ensures that the Board operates effectively, including ensuring that the Board and its committees, and the boards of the subsidiaries, have an appropriate balance of diversity, skills, experience, availability, independence and knowledge of the Group to enable them to discharge their respective responsibilities effectively, and leads on appointment of new members of the Board. The committee also considers succession planning for directors and other senior executives.

The Nomination and Governance Committee is required to meet at least four times a year and at other times during the year, as is necessary to discharge its duties.

Securities dealing code

The Issuer has adopted a code on dealings in relation to the securities of the Group. The Company requires the directors and other persons discharging managerial responsibilities within the Group to comply with the Issuer's securities dealing code, and takes all proper and reasonable steps to secure their compliance.

DESCRIPTION OF THE ORDINARY 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, including a summary of the key provisions of the articles of association of the Issuer (the **"Articles"**) as at the date of this Information Memorandum. Capitalised terms used but not defined in this section have the meanings given to them in the Articles.*

Share capital

As at the date of this Information Memorandum, the share capital of the Issuer comprises 243,087,874 Ordinary Shares of £0.01 each (the "**Ordinary Shares**"). All Ordinary Shares are in registered form (ISIN: GB00BM7S7K96 and SEDOL number: BM7S7K9) and are fully paid up.

Legislation under which Ordinary Shares are created

Ordinary Shares are created under the Companies Act and conform with the laws of England and Wales. Ordinary Shares issued upon any conversion of the Securities will be duly authorised according to the requirements of the Issuer's constitution and have all necessary statutory and other consents.

Form and currency of Ordinary Shares

Ordinary Shares are in registered form and are held in certificated and uncertificated form. The Registrar of the Issuer is Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Title to certificated Ordinary Shares is evidenced by entry in the register of members of the Issuer and title to uncertificated Ordinary Shares is evidenced by entry in the operator register maintained by Euroclear UK & Ireland Limited (which forms part of the register of members of the Issuer).

No share certificates have been issued in respect of Ordinary Shares held in uncertificated form. If any such Ordinary Shares are converted to be held in certificated form, share certificates will be issued in respect of those Ordinary Shares in accordance with applicable legislation. No temporary documents of title have been or will be issued in respect of Ordinary Shares.

Ordinary Shares are denominated in pounds sterling.

Rights attaching to Ordinary Shares

Subject to the provisions of the Companies Act, any equity securities issued by the Issuer for cash must first be offered to the shareholders of the Issuer (the "**Shareholders**") in proportion to their holdings of Ordinary Shares. The Companies Act and the listing rules of the FCA relating to the admission of securities to the Official List (the "**Listing Rules**") allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years.

Except in relation to dividends which have been declared and rights on a liquidation of the Issuer, Shareholders have no rights to share in the profits of the Issuer.

Ordinary Shares are not redeemable. However, the Issuer may purchase or contract to purchase any of the Ordinary Shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules. The Issuer may purchase Ordinary Shares only out of distributable reserves or the proceeds of a new issue of shares made for the purpose of funding the repurchase.

Description of restrictions on free transferability of Ordinary Shares

Save as described below, Ordinary Shares are freely transferable.

Transfer restrictions under the Articles

The Board can decline to register any transfer of any Ordinary Share which is not a fully paid share. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:

- is left at the registered office of the Issuer or such other place as the Board may from time to time determine accompanied (save in the case of a transfer by a person to whom the Issuer is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer;

- (if stamp duty is generally chargeable on transfers of certificated shares) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate or such other evidence of the right to transfer as the Board may reasonably require;

- is in respect of only one class of share; and

- if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may only be refused in the circumstances set out in the regulations of the dematerialised securities trading system operated by CREST (the "**CREST Regulations**") and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of any of the Issuer's certificated shares by a person with a 0.25 per cent. interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Issuer with information concerning interests in those shares required to be provided under the Companies Act, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

Transfer restrictions under the Companies Act

The Issuer may, under the Companies Act, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Issuer can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

DESCRIPTION OF THE ARTICLES

The Articles contain provisions (among others) to the following effect:

Unrestricted objects

The objects of the Issuer are unrestricted. For so long as KRPS is a shareholder of the Issuer, the Issuer shall work with KRPS in order to offer membership of KRPS to those customers of the Issuer and/or subsidiaries of the Issuer who hold qualifying savings accounts or qualifying mortgage accounts.

Limited liability

The liability of the Issuer's members (the "**Members**") is limited to any unpaid amount on the shares in the Issuer held by them.

Voting rights

Votes on a show of hands

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every Shareholder present in person or by proxy at a general meeting of the Issuer and every duly authorised corporate representative shall have one vote. If a proxy has been duly appointed by more than one Shareholder entitled to vote on the resolution and the proxy has been instructed by one or more of those Shareholders to vote for the resolution and by one or more other of those Shareholders to vote against it, then the proxy shall have one vote for and one vote against the resolution. If a proxy has been duly appointed by more than one Shareholder entitled to vote on the resolution and has been granted both discretionary authority to vote on behalf of one or more of those Shareholders and firm voting instructions on behalf of one or more other Shareholders, the proxy shall not be restricted by the firm voting instructions in casting a second vote in any manner he so chooses under the discretionary authority conferred upon him.

Votes on a poll

On a poll, votes may be given in person or by proxy. A Shareholder, who is entitled to more than one vote, need not use all his votes or cast all the votes in the same way.

Dividends and return of capital

Subject to the provisions of the Companies Act, the Issuer may by ordinary resolution from time to time declare dividends in accordance with the respective rights of Shareholders, but no dividend shall exceed the amount recommended by the Board.

If the Issuer shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution passed at a general meeting of the Issuer and any other sanction required by the Companies Act, divide among the Shareholders in specie or kind the whole or any part of the assets of the Issuer (whether or not the assets shall consist of property of one kind or not), and may for such purposes set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders. The liquidator may, with the like authority, vest the whole or any part of the assets in trustees upon such trusts for the benefit of Shareholders as the liquidator with the like authority shall think fit, but so that no Shareholder shall be compelled to accept any shares or other property in respect of which there is a liability.

Unclaimed dividends

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and shall revert to the Issuer.

Transfer of shares

Any Shareholder may transfer all or any of his uncertificated shares by means of a relevant system in such manner provided for, and subject as provided, in the CREST Regulations and the rules of any relevant system.

Any Shareholder may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee. The transferor shall be deemed to remain the holder of the share concerned until the name of the transferee is entered in the register in respect of it. All instruments of transfer, when registered, may be retained by the Issuer.

Subject to the provisions of the Companies Act 2006, the Board may, in its absolute discretion, decline to register any transfer of any share which is not a fully paid share provided that where such a share is a member of a class of share admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis.

The Board may only decline to register a transfer of an uncertificated share in the circumstances set out in the CREST Regulations, and the facilities and requirements of the relevant system. The Board may decline to register a transfer, whether fully paid or not, if in favour of more than four persons jointly.

The Board may decline to register any transfer of a certificated share unless:

- the instrument of transfer is left at the registered office of the Issuer or such other place as the Board may from time to time determine accompanied (save in the case of a transfer by a person to whom the Issuer is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer; and

- the instrument of transfer is in respect of only one class of share.

Restrictions on shares

Where the holder of any shares in the Issuer, or any other person appearing to be interested in those shares, fails to comply within the relevant period (as defined below) with any notice under section 793 of the Companies Act in respect of those shares (in this sub-section, a "**statutory notice**"), the Issuer may give the holder of those shares a further notice (in this sub-section, a "**restriction notice**") that the Shareholder shall not, nor shall any transferee otherwise than permitted by the Articles, be entitled to be present or vote or count as part of the quorum at any general meeting of the Issuer or separate general meeting of the holders of any class of shares of the Issuer.

If the Board is satisfied that the default in respect of which the restriction notice was issued no longer continues, any restriction notice shall cease to have effect on or within seven days of that decision. The Issuer may (at the absolute discretion of the Board) at any time given notice to the Member cancelling, or suspending for a stated period the operation of, a restriction notice in whole or in part.

The relevant period referred to above is the period of 14 days following service of a statutory notice.

Where the restricted shares represent at least 0.25 per cent. (in nominal value) of the issued shares of the same class, the restriction notice may also direct that:

(a) any dividend or other monies payable in respect of the restricted shares shall be withheld, bear no interest and shall be payable only when the restriction notice ceases to have effect; and/or

(b) where an offer of the right to elect to receive shares of the Issuer instead of cash in respect of any dividend has been made, any election make thereunder in respect of such restricted shares shall not be effective; and/or

(c) no transfer of any of the shares held by such Member shall be recognised or registered by the directors of the Issuer unless the transfer is a permitted transfer or:

    (i) the Member is not in default with regard to supplying the information required; and

    (ii) the transfer is of part only of the Member's holding and, when presented for registration, is accompanied by a certificate by the Member in a form satisfactory to the directors to the effect that after due and careful enquiry the Member is satisfied that none of the shares the subject of the transfer are restricted shares.

Variation of rights attaching to shares

Subject to the provisions of the Companies Act, all or any of the rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Issuer is being wound up) be varied either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Conditions governing the manner in which annual general meetings and general meetings are called

The Board shall convene and the Issuer shall hold general meetings as annual general meetings in accordance with the requirements of the Companies Act and at such time and place as the Board shall appoint.

An annual general meeting shall be convened by not less than twenty-one clear days' notice in writing. Subject to the Companies Act, all other general meetings shall be convened by not less than fourteen clear days' notice in writing. However, a meeting can be properly convened on a shorter notice period if it is so agreed by: (a) in the case of an annual general meeting, by all the Shareholders entitled to attend and vote at the meeting; and (b) in the case of any other meeting, by a majority in number of the Shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving the right.

Notice of every general meeting shall be given to all Shareholders other than any who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Issuer.

Before a general meeting carries out business, there must be a quorum present. Unless the Articles state otherwise in relation to a particular situation, a quorum for all purposes is two Shareholders present in person or by proxy and entitled to vote.

Notices to Shareholders

Any notice or document (including a share certificate) may be served on or delivered to any Shareholder by the Issuer either personally or by sending it through the post addressed to the Shareholder at his registered address or by leaving it at that address addressed to the Shareholder or by means of a relevant system or, where appropriate, by sending it in electronic form to an address for the time being notified by the Shareholder concerned to the Issuer for that purpose, or by publication on a website in accordance with the Companies Act or by any other means authorised in writing by the Shareholder concerned. In the case of joint holders of a share, service or delivery of any notice or document on or to the joint holder first named in the register is respect of the share shall for all purposes be deemed a sufficient service on or delivery to all the joint holders.

Directors

Unless otherwise determined by ordinary resolution of the Issuer, the number of directors (disregarding alternate directors) shall not be fewer than two nor more than 15.

Each director shall retire from office at the third annual general meeting after the annual general meeting at which he was elected or re-elected (as the case may be) unless he was appointed or re-appointed by the Issuer in the general meeting at, or since, either such meeting.

The Issuer may by ordinary resolution appoint any person who is willing to act to be a director, either to fill a vacancy or as an addition to the existing Board. Without prejudice to this power, the Board may appoint any person who is willing to act to be a director, either to fill a vacancy or as an addition to the existing Board.

Only the following people can be elected as directors at a general meeting:

- a director who is retiring at the annual general meeting; or
- a person who has been proposed for election or re-election by way of notice signed by a Shareholder qualified to vote at the meeting (not being the person to be proposed) and also signed by the person to be proposed indicating his willingness to be appointed or reappointed.

In addition to any powers of removal conferred by the Companies Act, the Issuer may by ordinary resolution of which special notice has been given in accordance with the Companies Act remove any director before the expiration of his period of office and may (subject to the Articles) by ordinary resolution, appoint another person who is willing to act in his place.

The directors shall be paid out of the funds of the Issuer by way of fees for their services as directors, such sums (if any) and such benefits in kind as the Board may from time to time determine and such remuneration shall be divided between the directors as the Board shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day.

Any director who is appointed to any executive office or who performs services which in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may in its discretion decide.

The Board or any committee authorised by the Board may exercise all the powers of the Issuer to award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits whether similar to the foregoing or not, to any director or former director or the relations, connections or dependants of any director or former director provided that no benefits (except such as may be provided for by any other Article) may be granted to or in respect of a director or former director who has not been employed by, or held an executive office or place of profit under, the Issuer or anybody corporate which is or has been its subsidiary undertaking or any predecessor in business of the Issuer or any such body corporate without the approval of an ordinary resolution of the Issuer.

Save as otherwise provided in the Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board in respect of any actual or proposed transaction or arrangement with the Issuer in which he has an interest which (taken together with any interest of any person connected with him) is to his knowledge an interest of which he is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of the Issuer and, if he shall do so, his vote shall not be counted.

A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:

- the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the Issuer or any of its subsidiary undertakings;

- the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Issuer or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

- where the Issuer or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;

- any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Issuer or by reason of any other interest in or through the Issuer;

- any contract concerning any other company (not being a company in which the director owns 1 per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;

- any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of the Issuer or of any of its subsidiary undertakings and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;

- any contract for the benefit of the employees of the Issuer or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom the contract relates;

- any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any director or directors or for, or for the benefit of, persons who include directors; and

- the provision of funds to any director, or the doing of anything to enable a director to avoid incurring expenditure of the nature described in section 205(1) of the Companies Act 2006.

If any question arises at any meeting of the Board as to whether the interest of a director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of the Issuer or as to the entitlement of any director to vote or be counted in the quorum and the question is not resolved by him voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by the chairman of the meeting.

The Board may, subject to the provisions of the Articles, authorise any matter which would otherwise involve a director breaching his or her duty under the Companies Act 2006 to avoid conflicts of interest.

A director who is in any way, whether directly or indirectly, interested in an actual or proposed transaction or arrangement with the Issuer shall declare the nature and extent of his interest.

Indemnity of directors

To the extent permitted by the Companies Act, the Issuer may indemnify any director or former director of the Issuer or of any associated company against any liability and may purchase and maintain for any director or former director of the Issuer or of any associated company insurance against any liability.

Borrowing powers

Subject to the provisions of the Companies Act, the Board may exercise all the powers of the Issuer to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Issuer or of any third party.

Further information

The past and future performance of the Ordinary Shares and their volatility may be obtained from the Investor Relations area of the Issuer's website: www.osb.co.uk.

TAXATION

UNITED KINGDOM

The following comments are of a general nature only and are not intended to be exhaustive. The following comments apply only to persons who are the beneficial owners of Securities who hold those Securities as an investment and is a summary of the Issuer's understanding of current United Kingdom tax law and published HM Revenue and Customs ("HMRC") practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) 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. 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 qualify or have qualified as Additional Tier 1 instruments under Article 52 of Commission Regulation (EU) 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.

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.

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) 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 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.

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 Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Securities, 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 Securities, such withholding would not apply prior to 1 January 2019. Securityholders should consult their own tax advisers regarding how these rules may apply to their investment in the Securities. In the event that any withholding were to be required pursuant to FATCA or an IGA with respect to payments on the Securities, no person would be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Sole Bookrunner has, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 23 May 2017, 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 Sole Bookrunner in respect of certain of its expenses, and has agreed to indemnify the Sole Bookrunner 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 net subscription proceeds to the Issuer.

Selling restrictions

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.

The Sole 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 the Sole 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 the Sole 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. The Sole 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.

The Sole 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 FSMA received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer); and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

No action has been taken by the Issuer or the Sole Bookrunner 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, the Sole 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 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*" on pages 3 to 5 of this Information Memorandum for further information.

GENERAL INFORMATION

Authorisation

1. The issue of the Securities was duly authorised by a resolution of the Board dated 1 November 2016 and a resolution of the committee of the Board dated 8 May 2017.

Listing

2. Application has been made to the Irish Stock Exchange for the Securities to be admitted to trading on the Irish Stock Exchange's Global Exchange Market and to be listed on the Official List of the Irish Stock Exchange. The Issuer estimates that the total expenses related to admission to trading will be approximately €13,040 .

Clearing systems

3. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1617418501 and the Common Code is 161741850.

   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 Group since 31 December 2016 and there has been no material adverse change in the financial position or prospects of the Group since 31 December 2016.

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. The auditors of the Issuer are KPMG LLP, who have audited the Issuer's accounts, without qualification, in accordance with IFRS for each of the three financial years ended on 31 December 2016. The auditors are members of the Institute of Chartered Accountants in England and Wales, a chartered accountants' professional body.

Documents available

7. Copies of the following documents will be available in physical form for the life of the listing particulars at the registered office of the Issuer and at the office of the Principal Paying Agent during normal business hours on any weekday:

   - the Articles;
   - the Issuer's 2015 Annual Report and 2016 Annual Report and each subsequent audited consolidated financial statements and unaudited condensed consolidated financial statements so published; 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 Principal Paying Agent during normal business hours on any weekday.

A copy of this Information Memorandum (and any document incorporated herein) will be available within the Investor Relations area of the website of OneSavings Bank (as at the date of this Information Memorandum at www.osb.co.uk) while the Securities remain outstanding.

Incorporation of Issuer

8. The Issuer was incorporated as a private company limited by shares on 13 July 2010 under the Companies Act 1985 with Company Number 07312896. The Issuer re-registered as a public company limited by shares on 8 October 2010.

Conflicts of Interest

9. The Sole Bookrunner and its 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 its business activities, the Sole Bookrunner and its 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 its own account and for the accounts of its customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Where the Sole Bookrunner or its 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 Sole Bookrunner and its 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 Sole Bookrunner and its 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 it acquires, long and/or short positions in such securities and instruments.

Purchase of Securities by Directors

10. The Issuer has been notified that certain of its directors have purchased Securities in an aggregate amount equal to £500,000. Such purchases were made by the relevant directors from a broker (and not, for the avoidance of doubt, from the Sole Bookrunner or the Issuer) in compliance with the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 published by the U.K. Financial Conduct Authority and other applicable laws.

Listing Agent

11. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Securities and is not itself seeking admission of the Securities to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

Description of the Ordinary Shares

General

12. A description of the Issuer's ordinary shares is included under "*Ordinary Shares*" in this Information Memorandum.

Admission to Trading of the Ordinary Shares

13. The Ordinary Shares are currently in issue are listed on the Official List of the UK Listing Authority and are admitted to trading on the main market of the London Stock Exchange's regulated market for listed securities.

The London Stock Exchange is a key element of the financial infrastructure in the United Kingdom. Its roots stretch back to 1801 and the London Stock Exchange's regulated market is regulated by the UK Financial Conduct Authority.

On 19 May 2017 the daily trading volume (in terms of value) of all order book trading on the London Stock Exchange was approximately £6,209,375,303. Price and trading information is available on the London Stock Exchange's website which is continually updated with a 15 minute time delay. The trading prices of the Ordinary Shares and daily trading volumes are published on the London Stock Exchange's website and in the London Stock Exchange's Daily Official List, as well as on the Issuer's website. The ISIN of the Ordinary Shares is GB00BM7S7K96.

Further information about the London Stock Exchange can be obtained from the website of the London Stock Exchange at www.londonstockexchange.com.

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