



# THE PARAGON GROUP OF COMPANIES PLC

(incorporated with limited liability in the United Kingdom)

## £150,000,000 7.250 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026

The issue price of the £150,000,000 7.250 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026 (the "Notes") of The Paragon Group of Companies PLC (the "Issuer") is 100.00 per cent. of their principal amount.

From (and including) 9 September 2016 (the "Issue Date") to (but excluding) 9 September 2021 (the "Reset Date"), the Notes will bear interest at the rate of 7.250 per cent. per annum. From (and including) the Reset Date to (but excluding) the Maturity Date (as defined below), the Notes will bear interest at a rate which is the aggregate of the initial margin of 6.731 per cent. per annum and the applicable 5-year sterling mid-market swap rate. Interest will be payable semi-annually in arrear on 9 March and 9 September of each year commencing on 9 March 2017. Payments on the Notes will be made in pounds sterling without deduction for or on account of taxes imposed or levied by the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, except in the circumstances described under "*Terms and Conditions of the Notes—Taxation*".

Unless previously redeemed, purchased or cancelled, the Notes will be redeemed at their principal amount on 9 September 2026 (the "Maturity Date"). Subject to certain conditions set out in "*Terms and Conditions of the Notes—Redemption and Purchase*", the Notes may be redeemed at the option of the Issuer in whole but not in part at their principal amount together with any unpaid interest accrued (as defined herein) on the Reset Date. In addition, and subject to certain conditions set out in "*Terms and Conditions of the Notes—Redemption and Purchase*", the Notes may be redeemed at any time upon the occurrence of certain tax events due to changes to law or upon a change in the regulatory classification of the Notes that results, or would be likely to result, in the whole or any part of the principal amount of the Notes at any time being excluded from the Group's Tier 2 Capital (as defined herein), all as more particularly provided in "*Terms and Conditions of the Notes—Redemption and Purchase*".

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "FCA") under Part VI of the Financial Services and Markets Act 2000, as amended ("FSMA") as a prospectus issued in compliance with Directive 2003/71/EC, as amended (the "Prospectus Directive") and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the FCA (the "Official List") and to trading on the regulated market of the London Stock Exchange plc (the "London Stock Exchange"). The regulated market of the London Stock Exchange (the "Regulated Market") is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

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

The Notes are in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Notes are represented by a global registered note certificate (the "Global Note Certificate") registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depository for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"). Individual note certificates ("Individual Note Certificates") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Notes in Global Form*".

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

The Notes will be rated BB+ by Fitch Ratings Ltd. ("Fitch"). Fitch is established in the European Economic Area (the "EEA") and registered under Regulation (EU) No 1060/2009, as amended (the "CRA Regulation"). Fitch appears on the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the European Securities and Markets Authority ("ESMA") website <http://www.esma.europa.eu>.

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

### JOINT LEAD MANAGERS

BOFA MERRILL LYNCH

UBS INVESTMENT BANK

Dated: 6 September 2016

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## IMPORTANT NOTICES

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

This Prospectus is to be read in conjunction with all information which is incorporated by reference herein. This Prospectus shall be read and construed on the basis that such information is incorporated by reference in, and forms part of, this Prospectus.

The Issuer has confirmed to the Joint Lead Managers named under "*Subscription and Sale*" below (the "**Joint Lead Managers**") that this Prospectus contains all information with respect to the Issuer, the Group and the Notes which is (in the context of the issue of the Notes) material; such information is in every material particular true and accurate and not misleading; any opinions, beliefs, expectations or intentions expressed in this Prospectus on the part of the Issuer are honestly and reasonably held or made and are not misleading in any material respect; this Prospectus does not contain any untrue statement of a material fact or omit to state any material fact necessary to make such information, opinions, beliefs, expectations or intentions (in such context) not misleading in any material respect; and all reasonable enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

Neither the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

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

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

The Notes are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their

overall portfolios. Each potential investor in the Notes should determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the Notes;
- (iv) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the potential investor's currency is not pounds sterling; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

In this Prospectus, unless otherwise specified, references to "£", "**Sterling**" or "**pounds sterling**" are to the lawful currency of the United Kingdom, references to "EU" are to the European Union and references to "€", "**EUR**", "**Euro**" and "**euro**" are to the currency introduced at the start of the third stage of the European economic and monetary union, as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro.

In this Prospectus, all references to the "**Group**" are to The Paragon Group of Companies PLC and its subsidiaries taken as a whole.

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

**In connection with the issue of the Notes, Merrill Lynch International (the "Stabilisation Manager") (or persons acting on behalf of the Stabilisation Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not 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 Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.**

## INFORMATION INCORPORATED BY REFERENCE

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

1. the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 30 September 2015 (set out on pages 142 to 235 of the 2015 annual report of the Issuer, together with the independent auditors' report on pages 134 to 141) ("**2015 Audited Consolidated Financial Statements**");
2. the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 30 September 2014 (set out on pages 97 to 175 of the 2014 annual report of the Issuer, together with the independent auditors' report on pages 90 to 93) ("**2014 Audited Consolidated Financial Statements**");
3. the interim unaudited consolidated financial statements of the Issuer in respect of the six-month period ended 31 March 2016 (set out in the document entitled "2016 Half-Year Financial Report", together with the independent auditors' report thereon and notes thereto) ("**2016 Half-Year Unaudited Consolidated Financial Statements**"); and
4. the press release of the Issuer dated 29 July 2016 relating to a trading update on its business performance for the period from 1 October 2015 to 29 July 2016 (set out in the RNS announcement entitled "Trading Update" available on: [http://otp.investis.com/clients/uk/paragon\\_group/rns/regulatory-story.aspx?cid=1285&newsid=767608](http://otp.investis.com/clients/uk/paragon_group/rns/regulatory-story.aspx?cid=1285&newsid=767608)) save for the final three sentences appearing under the heading "Outlook", which are not relevant to prospective investors and shall not be incorporated by reference in this Prospectus,

each of which have been previously published or are published simultaneously with this Prospectus and which have been approved by the FCA or filed with it. Such information shall be incorporated in, and form part of, this Prospectus, save that any statement contained in the information which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Any information contained in any of the documents specified above which is not specifically incorporated by reference in this Prospectus is either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus. Any information or documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Copies of the documents specified above may be inspected (without charge) during usual business hours at 51 Homer Road, Solihull, West Midlands B91 3QJ and will also be available to view (free of charge) on the website of the Issuer (<http://www.paragon-group.co.uk/group/>).

## OVERVIEW

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

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

*Investing in the Notes involves significant risk. For a discussion of certain risks that should be considered in connection with an investment in the Notes, see "Risk Factors" beginning on page 7 of this Prospectus.*

<b>Issuer:</b>	The Paragon Group of Companies PLC
<b>Joint Lead Managers:</b>	Merrill Lynch International and UBS Limited
<b>Trustee:</b>	Citicorp Trustee Company Limited
<b>Registrar:</b>	Citibank N.A., London Branch
<b>Principal Paying Agent and Agent Bank:</b>	Citibank N.A., London Branch
<b>Notes:</b>	£150,000,000 7.250 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026
<b>Issue Price:</b>	100.00 per cent. of the principal amount of the Notes
<b>Issue Date:</b>	9 September 2016
<b>Use of Proceeds:</b>	The net proceeds of the issue of the Notes will be used for the general financing purposes of the Group.
<b>Interest:</b>	The Notes will bear interest on their outstanding principal amount from (and including) the Issue Date to (but excluding) the Reset Date at a rate of 7.250 per cent. per annum. From (and including) the Reset Date to (but excluding) the Maturity Date, the Notes will bear interest at a rate which is the aggregate of the initial margin of 6.731 per cent. and the 5 Year Mid-Swap Rate (as determined by the Agent Bank on the date falling two Business Days prior to the Reset Date). Interest will be payable semi-annually in arrear on 9 March and 9 September of each year commencing 9 March 2017.
<b>Status and Subordination of the Notes:</b>	The Notes constitute direct, unsecured and subordinated obligations of the Issuer, ranking <i>pari passu</i> without any preference among themselves. On a winding up or administration of the Issuer, claims of Noteholders and the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) against the Issuer in respect of or arising under the Notes (including any damages awarded for breach of any obligations in respect of the Notes) will be subordinated in the manner provided in the Conditions and in the Trust Deed to the claims of all Senior Creditors but shall rank:

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

as more fully described in Condition 3 (*Status and Subordination of the Notes*).

**Form and Denomination:** The Notes will be issued in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Notes are represented by a Global Note Certificate registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg (together, the "**Clearing Systems**"). Individual Note Certificates in definitive form evidencing holdings of Notes will only be available in certain limited circumstances – see "*Summary of Provisions relating to the Notes in Global Form*".

**Maturity Date:** 9 September 2026

**Optional Redemption:** Subject to Supervisory Permission and compliance with the Regulatory Preconditions, the Notes may be redeemed at the option of the Issuer on the Reset Date in whole but not in part, at an amount equal to their principal amount together with any unpaid interest accrued to (but excluding) the date fixed for redemption.

**Tax Redemption:** Subject to Supervisory Permission and compliance with the Regulatory Preconditions, if at any time a Tax Event occurs, the Issuer may redeem the Notes in whole, but not in part, at any time at an amount equal to their principal amount, together with unpaid interest accrued to (but excluding) the date fixed for redemption, as more fully provided in Condition 5 (*Redemption and Purchase*).

**Regulatory Event Redemption:** Subject to Supervisory Permission and compliance with the Regulatory Preconditions, if at any time a Regulatory Event occurs, the Issuer may redeem the Notes in whole, but not in part, at an amount equal to their principal amount together with any unpaid interest accrued to (but excluding) the date of redemption, as more fully provided in Condition 5 (*Redemption and Purchase*).

**Notice of Redemption:** Any redemption of the Notes shall be subject to the Issuer providing not less than 30 days' nor more than 60 days' prior notice to the Noteholders, the Trustee and the Agents (which notice shall be irrevocable).

<b>Purchases:</b>	Subject to obtaining Supervisory Permission, the Issuer or any of its Subsidiaries may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements.
<b>Events of Default and Enforcement:</b>	The remedies under the Notes are more limited than those typically available to unsubordinated creditors. The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes is, subject to certain conditions, for the Trustee to institute proceedings in England (or such other jurisdiction in which the Issuer may be organised) (but not elsewhere) for the winding-up of the Issuer and/or to prove in its winding up and/or claim in its liquidation or administration. The Notes are only capable of being accelerated upon the occurrence of a Winding-Up Event.
<b>Taxation:</b>	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as described in Condition 7 ( <i>Taxation</i> ).
<b>Rating:</b>	The Notes will be rated BB+ by Fitch. Fitch is established in the EEA and registered under the CRA Regulation. Fitch appears on the latest update of the list of registered credit rating agencies (as of 1 December 2015) on the ESMA website <a href="http://www.esma.europa.eu">http://www.esma.europa.eu</a> .
<b>Governing Law:</b>	The Notes, the Trust Deed, the Agency Agreement and the Subscription Agreement, and any non-contractual obligations arising out of or in connection with them are governed by English law.
<b>Listing and Trading:</b>	Applications have been made for the Notes to be admitted to listing on the Official List and to trading on the Regulated Market.
<b>Clearing Systems:</b>	Euroclear and Clearstream, Luxembourg
<b>Selling Restrictions:</b>	See " <i>Subscription and Sale</i> "
<b>ISIN:</b>	XS1482136154
<b>Common Code:</b>	148213615



## **RISK FACTORS**

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

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

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

### **RISKS RELATING TO THE ISSUER**

#### **Business Risks**

##### ***The Group could be materially affected by a downturn in the United Kingdom economy***

The Group's income is derived principally from activities within the UK. This geographical concentration of credit risk means the Group is sensitive to adverse changes in the UK economy, which could reduce demand for the Group's loan products, increase the number of customers that default on their loans and cause security asset values to fall.

In this regard, on 23 June 2016, the United Kingdom held a referendum on its continued membership of the European Union which resulted in a majority vote to leave. Negotiations for withdrawal from the EU are likely to take a number of years. Uncertainty during this period could have an adverse effect on UK economic or business conditions and financial market volatility.

A downturn in business conditions or the UK economy or increased financial market volatility could adversely affect the Group's cashflows, revenues and/or profits which could adversely impact the Issuer's ability to fulfil its obligations under the Notes.

##### ***The Group is heavily reliant on lending to customers investing in the UK private rented sector***

Demand for the Group's buy-to-let ("**BTL**") mortgages is susceptible to any systemic deterioration in the performance of the UK private rented sector ("**PRS**"), which will be influenced by underlying factors such as house prices, supply of rental property, demographic changes and government policy. The policy environment for the PRS has become more challenging following recent UK Government announcements.

On 8 July 2015 the UK Government announced plans to restrict the amount of income tax relief landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, currently 20 per cent. Such restriction will be introduced gradually from 6 April 2017, giving landlords time to adjust their strategies and it is currently expected that the changes will have a muted impact on the motivation for landlords to invest although some reduction in the rate of growth is anticipated.

The UK Government has introduced a higher rate of stamp duty land tax ("**SDLT**") on the purchase of additional residential properties, which has applied since 1 April 2016. The additional rate is three per cent above the previous SDLT rates (subject to certain exemptions). The policy is designed to "level the playing field" for the benefit of home buyers and, in March 2016, the UK Government announced that

there would be no exemption from the higher rates for significant investors, and the higher rates will apply equally to purchases by individuals and corporate investors. Such policy changes to the tax regime for BTL mortgages could reduce the demand for BTL mortgages.

On 29 March 2016, the PRA issued a consultation paper on underwriting standards for BTL mortgage contracts, setting out proposals regarding its expectations of minimum standards that firms should meet when underwriting BTL mortgage contracts. Increased regulation of BTL mortgages could reduce the choice of mortgage products available to BTL investors, which in turn could reduce demand for BTL mortgages. Demand and returns from BTL mortgage lending is also susceptible to changes in interest rates, employment levels and other factors that determine disposable income and rental yields.

In addition, decreases in UK residential property prices (including any decrease resulting from the measures described above) could reduce the value of the security held against outstanding loans and could potentially increase the Group's losses in the event of any default that results in repossession.

Reductions in demand for BTL lending and also any decreases in the value of security could adversely affect the Group's cashflows, revenues and/or profits which could adversely impact the Issuer's ability to fulfil its obligations under the Notes.

***The Group operates in highly competitive markets and faces strong competition in all of the core areas in which it is active***

The UK financial services market is highly competitive and the Group faces competition in all markets in which it operates including BTL mortgages, consumer lending, debt purchase, SME finance and administration and retail savings. Competitors in the BTL market range from the large multi-product high street banks to small highly specialised operations. In the portfolio purchase and administration markets, competitors are largely specialist funds and private equity funds. In the savings and consumer lending market, competitors range from other niche specialised lenders to large high street banks.

The market is expected to remain highly competitive in all of the Group's business divisions, which could adversely affect the Group's business, results of operations and financial condition.

If the Group's offerings do not remain competitive the Group's cashflows, revenues and/or profits could be adversely impacted which could adversely impact the Issuer's ability to fulfil its obligations under the Notes.

**Credit Risks**

***As a lender, the Group is exposed to the risk of unexpected material losses in the event of customers being unable to repay their debts***

As a lender and debt purchaser, the Group is inherently exposed to risks arising from changes in the credit quality and the recoverability of amounts due from borrowers. Adverse changes in the credit quality of the Group's borrowers could result from a number of factors including but not limited to a general deterioration in UK economic conditions, increases in interest rates charged, or changes in personal or business circumstances. The majority of the Group's loans charge a floating interest rate (either from the date the funds are lent or after an initial fixed rate period during which the interest rates are fixed). Increased borrower default risk can result from an increase in interest rates for borrowers who are subject to a floating interest rate. Any deterioration in UK economic conditions could lead to generally weaker than expected growth, contracting GDP, reduced business confidence, higher levels of unemployment, rising inflation, potentially higher interest rates and falling property and asset prices which could consequently lead to an increase in delinquency rates and default rates by the Group's customers. Increased numbers of defaults by the Group's customers may reduce the recoverability and value of the Group's assets and require an increase in the level of provisions for impairment.

Any adverse changes in credit quality and loan recoverability could have a material adverse effect on the Group's reputation, business, results from operations, cashflows, profitability or financial condition which could adversely impact the Issuer's ability to fulfil its obligations under the Notes.

***The Group is exposed to the risk of failure of wholesale counterparties with which it places deposits and enters into hedging transactions with which to mitigate interest rate and foreign exchange risk***

The Group holds certain amounts of its assets in the form of cash, mainly on short term deposit with high quality banks or other institutions, which meet defined minimum ratings levels. These investments give rise to the risk of loss for the Group in the event of failure of one of these counterparties ("**counterparty credit risk**").

The Group undertakes hedging arrangements to mitigate the interest rate and foreign exchange risk. At times the value of these hedging transactions can be material. The Group is, therefore, also exposed to the risk of loss in the event of the failure of a hedging counterparty.

These risks are compounded by the fact that the number of available counterparties that meet the required criteria has reduced significantly following the financial crisis.

If any of the counterparty failure events described above were to arise then this could give rise to a loss for the Issuer or a reduction in the value of the Issuer's investment in the affected SPV or subsidiary, and this could have an adverse effect on the Group's business, results of operations, profitability or financial condition.

### **Conduct Risk**

***The Group is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to deliver fair outcomes for customers***

In recent years, issues associated with poor customer conduct and the delivery of unfair customer outcomes have been a significant source of cost for the financial services industry. As a provider of financial products and services to a broad customer base, which includes retail and small and medium sized enterprises ("**SME**") customers, the Group is exposed to potential conduct risk should it fail to treat its customers fairly. This could arise, for example, if certain products fail to meet the needs of customers, customers in financial difficulties are not treated appropriately or customer complaints are handled ineffectively.

The manner in which financial services companies treat their customers is subject to intense scrutiny from regulatory bodies, the media and government. Whilst the Group has established governance frameworks including conduct risk policies, procedures, employee training and oversight to mitigate its potential exposure, there remains a risk that certain aspects of the Group's current or historic activities may be determined by the Financial Conduct Authority, other regulatory bodies or the courts as not being consistent with the delivery of fair outcomes for customers. Systemic unfair customer treatment may lead to regulatory censure, fines and significant reputational damage which could result in reductions to the Group's income profitability and future growth prospects.

### **Operational Risks**

***The Group is exposed to the risk that it is unable to recruit and retain skilled senior management and key personnel at all levels. Failure to maintain the necessary skills within its workforce could have a material impact on the Group's ability to deliver its business plan and strategic objectives***

The success of the business of the Group is dependent on recruiting, retaining and developing appropriately skilled, competent people at all levels of the organisation (for example, relationship managers responsible for key introducers). If the Group is not able successfully to attract and retain such personnel or ensure that the experience and knowledge of key management and necessary skills of the workforce are not lost from its business over time or through the succession of personnel, it may not be able to maintain its standards of service or continue to grow its business as anticipated.

The loss of such personnel, and more particularly the failure to find suitable replacements in a timely manner, the inability to attract and retain and develop additional appropriately skilled employees, or the failure to plan succession effectively, could have an adverse effect on the Group's business and its ability to deliver business plans and strategic objectives.

***The Group's various activities subject it to operational risks relating to its ability to implement and maintain effective systems to process the large number of transactions it enters into with customers***

A significant breakdown of the Group's information technology systems might adversely impact its ability to operate its business effectively, which may in turn have an adverse effect on the Group's business, results of operations, profitability or financial condition.

It is important for the Group to be able to migrate a large number of assets to its systems at origination or following purchase and to process a large number of transactions efficiently and accurately. Losses in migration or in processing transactions can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisations, failure to comply with regulatory requirements (including rules relating to conduct of business and treating customers fairly), equipment failures, natural disasters, terrorist attacks or the failure of external systems, such as those of the Group's funding banks. Although the Group has trained its staff in disaster recovery procedures and has resources dedicated to developing efficient processes, it is not possible to be certain that such procedures will be effective in controlling each of the operational risks faced by the Group.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the official list of the FCA.

The Group's activities subject it to risks relating to the management and maintenance of information technology systems, the migration of data and the processing of transactions.

***The Group is exposed to the risk of disruption of its systems and loss or disclosure of sensitive data as a result of cyber-crime or a data security breach***

The threat posed by cyber attacks continues to grow and the banking industry has suffered major cyber attacks in 2015. Activists, nation states, criminal gangs, insiders and opportunists are among those targeting computer systems. Given the increasing sophistication and scope of potential cyber attacks, it is possible that future attacks may lead to significant breaches of security. The occurrence of one or more of such events may jeopardise the Group or the Group's clients' or counterparties' confidential and other information processed and stored in, and transmitted through, the Group's computer systems and networks, or otherwise cause interruptions or malfunctions in the Group's clients', counterparties' or third parties' operations, which could impact their ability to transact with the Group or otherwise result in significant losses or reputational damage.

The Group invests in layers of defences to combat risks to its data security using both technical controls and appropriate policy and procedures combined with testing of its defences and staff training programmes. This framework supported by certification with appropriate internationally defined standards assists the Group with maintaining compliance to UK and EU law and regulations surrounding information security. Notwithstanding these measures there is a risk of disruption of the Group's systems or loss or disclosure of sensitive data as a result of cyber-crime or from the actions of a careless or malicious insider, which could result in damage to the reputation of the Group, losses from reductions of business volumes or lost contracts, fines from regulators or damages arising as a result of legal action.

Failure to adequately manage cyber security risk and continually review and update current processes in response to new threats could adversely affect the Group's reputation, operations, financial condition and prospects. The range of impacts includes increased fraud losses, customer detriment, regulatory censure and penalty, legal liability and potential reputational damage.

***Possible exposure of the Group to fraud***

As an originator and purchaser of loan assets, the Group is exposed to possible fraud by borrowers, purported borrowers, their professional advisors such as solicitors, accountants or valuers as well as by employees. Attempted fraud typically involves borrowers, either acting alone or in concert with professional advisors, seeking to obtain funds by adopting a false identity or using a false inflated property valuation or purporting to own a property or seeking a release of security without redeeming the underlying loan. Borrowers could also wrongly claim reimbursement under direct debit indemnity arrangements of instalments previously paid by them. In addition, solicitors could abscond with

completion monies, although redress under the indemnity arrangements required by the Solicitors Regulation Authority is normally available in such circumstances.

The Group has in place processes and procedures to counter fraud, and insurance in place providing an indemnity against losses arising from dishonest, fraudulent or malicious acts committed by its staff, outside valuers and outside solicitors. However it is possible that large scale fraud could adversely affect the Group's revenues and/or profits which could in turn adversely impact the Issuer's ability to fulfil its obligations under the Notes.

*The Group is exposed to the risk that its financial performance and reputation could suffer significantly if it fails to identify, interpret and comply with relevant regulatory and legal obligations or as a result of changes in supervision and regulation which adversely affect business*

The Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the United Kingdom. This is particularly the case in the current market environment, which is experiencing increased levels of government and regulatory intervention in the financial sector, which the Group expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Group and could materially adversely affect the Group's business, financial condition and results of operation.

Certain subsidiaries and activities of the Group are subject to regulation. The Prudential Regulation Authority of the United Kingdom (the "PRA") regulates the activities of Paragon Bank PLC ("**Paragon Bank**"), the Issuer and the Group in connection with its banking activities (*see further – "Regulatory action in the event of a bank failure could materially adversely affect the value of any Notes" below*). In addition, the FCA regulates the activities of advising, arranging, selling and administration of general insurance products (which comprise, broadly, buildings, contents or rent protection cover) undertaken by the Group in respect of its borrowing customers. The FCA also regulates the Group's activities in the acquisition, ownership and administration of consumer finance assets.

If the Group fails to identify, correctly interpret or comply with any relevant regulations, there is a risk of an adverse impact on its business due to certain asset balances becoming in whole or in part irrecoverable or as a result of sanctions, fines or other actions imposed by the regulatory authorities. There is also a risk of greater scrutiny and/or intervention from regulators, further regulatory action and/or litigation. The nature of any future disputes and legal, regulatory or other investigations or proceedings into such matters cannot be predicted in advance. Furthermore, the outcome of any ongoing disputes and legal, regulatory or other investigations or proceedings is difficult to predict. This would take a significant amount of management time and resources away from management of the Group's business. In addition, such action could lead to substantial monetary damages and/or fines, public reprimands, a negative effect on the Group's reputation or potential regulatory restrictions on the Group's business. Any of these risks, should they materialise, could have an adverse impact on the Group's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with regulatory capital requirements.

Combating money laundering, bribery and terrorist financing and compliance with economic sanctions has been a major focus of government policy relating to financial institutions in recent years (most notably in the UK and the EU. UK and EU law and regulations impose obligations on the Group to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Failure by the Group to implement and maintain adequate policies, procedures and controls to combat money laundering, bribery and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution, including exposure to fines, public censure, penalties and damages.

Changes in supervision and regulation could materially affect the Group's business, the products and services offered or the valuation of assets. The Group works closely with the various entities that regulate its business, however, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the Group's control. Although the Group is committed to compliance with existing regulations, it could be subject to investigations or other regulatory action in the future that could increase its costs or result in negative publicity for the Group or its products. In addition, any changes in operational requirements could result in increased costs which could adversely impact on the Group's financial performance and results from operations.

### ***Mortgage Credit Directive***

The European Mortgage Credit Directive (2014/17/EU) ("**MCD**") was published in the Official Journal of the European Union on 28 February 2014, and entered into force on 21 March 2014. The deadline for transportation of the MCD into the national law of each member state of the European Union (an "**EU Member State**") was 21 March 2016.

The MCD applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in an EU Member State on residential immovable property, or secured by a right relating to residential immovable property and (b) credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building, and also extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements the purpose of which is to renovate residential immovable property involving a maximum total amount of credit of EUR 75,000. The MCD also applies to buy-to-let mortgages. The MCD does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The MCD requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The MCD also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

The MCD is not yet implemented into UK law. Until it is, it is not possible to tell what effect its implementation would have on the Group's businesses and operations. However, the UK government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the MCD in respect of buy-to-let mortgages. The UK government established in legislation a framework for 'consumer buy-to-let' mortgages ("**CBTL**"), which was laid before Parliament on 26 January 2015 and the new framework came into force on 21 March 2016. The legislation will create a new distinction between buy-to-let activity involving consumers and consumers acting by way of business. The legislation provides that firms do not need to apply the government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. The HM Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions.

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

The existence of Paragon Bank, a credit institution, in the Group means that the Group is subject to various powers granted under legislation at a national and European level aimed at, amongst other things, managing bank failures, safeguarding financial stability and strengthening depositor protection.

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: (i) the legislative package implementing the proposals of the Basel Committee (known as Basel III) in the European Union and amending and supplementing the existing Capital Requirements Directive and the Capital Requirements Regulation ("**CRD IV**") and other regulatory developments impacting capital, leverage and liquidity positions, including a requirement for an Individual Liquidity Adequacy Assessment Process, the purpose of which is to help ensure the Group complies with the overall liquidity risks, and an Internal Capital Adequacy Assessment Process ("**ICAAP**"), the purpose of which is to help ensure the Group complies with the overall capital requirements; and (ii) the Bank Recovery and Resolution Directive (2014/59/EU) (the "**BRRD**") which establishes an EU-wide framework for the recovery and resolution of credit institutions and investment firms, their subsidiaries and certain holding companies. The BRRD requires all EEA member states to provide their relevant resolution authorities with a set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the broader economy and financial system. Any future prudential regulatory developments could have a material adverse effect on the Group's business, results of operations and financial condition.

*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 or any Group subsidiary could materially adversely affect the value of the Notes*

In the United Kingdom, the majority of the requirements of the BRRD have been implemented into national law in the Banking Act 2009, as amended by the UK Financial Services (Banking Reform) Act 2013 (the "**Banking Act**"). The UK implementation of the BRRD included the introduction of the bail-in tool as of 1 January 2015. For more information on the bail-in tool, see "*The relevant UK resolution authority may exercise the bail-in tool in respect of the Notes, which may result in Noteholders losing some or all of their investment*" below.

Under the Banking Act, substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the PRA, the FCA and HM Treasury, as appropriate as part of a special resolution regime (the "**SRR**"). These powers enable the relevant UK resolution authority to implement resolution measures with respect to entities ("**relevant entities**") such as Paragon Bank and/or the Issuer in circumstances in which the relevant UK resolution authority is satisfied that the resolution conditions are met. A range of stabilisation options are available to allow for a whole or partial transfer of the relevant entity to a private or public sector entity, use of the bail-in-tool or temporary public ownership (nationalisation).

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

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

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

The exercise of any resolution power or any suggestion of any such exercise could have a material adverse effect on the Group's reputation, business, results from operations, cashflows, profitability or financial condition which could adversely impact the Issuer's ability to fulfil its obligations under the Note.

*The SRR is designed to be triggered prior to insolvency of the Issuer, and holders of the Notes may not be able to anticipate the exercise of any resolution power (including the UK Bail-in 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's guidelines published in May 2015 set out the objective elements for the resolution authorities to apply in determining whether an institution is failing or likely to fail, it is uncertain how the relevant UK resolution authority would assess such conditions in any particular pre-insolvency scenario affecting the Issuer and/or other members of the Group and in deciding whether to exercise a resolution power. The relevant UK resolution authority is also not required to provide any advance notice to holders of the notes of its decision to exercise any resolution power.

Therefore, holders of the notes may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer, the Group and the Notes.

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

*The relevant UK resolution authority may exercise the bail-in tool in respect of the Notes, which may result in Noteholders losing some or all of their investment*

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

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

The exercise of the bail-in tool in respect of the Issuer and the Notes or any suggestion of any such exercise could materially adversely affect the rights of the Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and could lead to Noteholders losing some or all of the value of their investment in such Notes.

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

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

Holders of the Notes may be subject to write-down or conversion into equity on application of such powers (without requiring such Noteholders' consent), which may result in such Noteholders losing some or all of their investment. The "no creditor worse off" safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised.

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

*Minimum requirement for own funds and eligible liabilities*

To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet an individual minimum requirement for own funds and eligible liabilities ("MREL") requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities". In December 2015, the Bank of England published "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities - Consultation on a proposed Statement of Policy". The consultation paper sets out the Bank of England's proposed policy for exercising its power to direct institutions to maintain a minimum requirement for MREL under section 3A(4) of the Banking Act 2009. Although the provisions of the BRRD transposed into UK law relating to MREL took effect from the 1 January 2016, the Bank of England has confirmed that it intends to make use of the transition period and proposes in most cases to require institutions to comply with MREL requirements from 1 January 2020 (or 2019 for globally systematically important banks ("G-SIBs")). Until



such time, an institution's MREL requirement will be set equal to the applicable minimum capital requirement.

Until these measures are finally applied to the Issuer and the Group, it is not possible to determine the ultimate scope and nature of any resulting obligations for the Issuer or the Group, nor the impact that they will have on the Issuer or the Group once implemented. If the Financial Stability Board's ("FSB") and the European Banking Authority's ("EBA") proposals are implemented in their current form however, 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 needs, a requirement to increase the Group's MREL eligible liabilities in order to meet MREL targets may prove more difficult and/or costly. More generally, these proposals could increase the Group's costs and may lead to asset sales and/or other balance sheet reductions. The effects of these proposals could all adversely impact the results of operations, financial condition and prospects of the Group and, in turn, adversely affect the value of the Notes.

### **Liquidity and Capital Risks**

*The Group is exposed to the risk that increases in the cost or reductions in the availability of funding could adversely impact its business model and strategic objectives*

The Group's operations require available corporate funds, third party debt, bank borrowing facilities and retail deposits to finance the origination of new mortgage business, consumer lending, portfolio acquisitions and working capital.

A large proportion of the Group's BTL mortgage business relies on regularly refinancing originated assets financed under its warehouse facilities by selling pools of those assets to specifically formed subsidiary special purpose vehicle companies ("SPV") each of which funds the acquisition of assets through the proceeds of a public issue of securities secured on the pool of assets acquired by it. These structures are commonly referred to as asset or mortgage backed securitisations. The funding available through these types of securitisations is generally more commercially attractive than the funding sources used to originate the products, but is subject to variations in line with the securitisation market. There is a risk that refinancing costs could increase in the future, which could adversely affect the Group's profitability and income and could impact the Issuer's ability to fulfil its obligations under the Notes.

In addition, there is a risk that in the future, warehouse facilities become unavailable or securitisation or asset sale markets close for an indeterminate period, and that as a result the Group is required to cease new lending or asset purchase activities. This may in turn be detrimental to the brand's value, the Group's goodwill, profitability and the Group's future growth potential which in turn could affect the Issuer's ability to pay interest and principal on the Notes.

The Group's bank subsidiary, Paragon Bank, relies on retail deposits and wholesale corporate funding to support its leading businesses. Any material adverse change in market liquidity, the availability and cost of customer deposits and/or wholesale corporate funding could adversely impact the Group's ability to maintain the levels of liquidity required to meet regulatory requirements and sustain normal business activity. In addition, there is a risk that the Group could face sudden, unexpected and large net cash outflows, for example from customer deposit withdrawals. Increased costs of raising funding could adversely impact the operations, financial condition and prospects of the Group.

As the Group relies on brokers and distributors in order to source new lending, if there is a significant period of time when funding is unavailable on commercially acceptable terms, there is also likely to be an adverse effect on the Group's relationships with its brokers, dealers and key introducers. As a consequence, its ability to generate new business from brokers and distributors in the future, should funding become more readily available, may be more challenging.

Any significant adverse change in the availability or cost of the Group's funding could have a material adverse impact on the Group's business, results of operations, profitability or financial condition which could adversely impact the Issuer's ability to fulfil its obligations under the Notes.

***The value of the Group's investments and/or income flows in respect of its Funding SPVs may be adversely affected by virtue of their subordination to other payments, limited recourse to assets and underlying terms***

The Group raises a portion of its funding using special purpose vehicles where assets are sold or transferred into an entity which provides security over such assets against the issue of mortgage or asset backed securitisations or warehouse or secured facilities ("**Funding SPVs**"). Certain of the Group's subsidiaries have provided credit enhancement in respect of the Group's Funding SPVs. This credit enhancement often takes the form of a subordinated loan (in loan or note form) advanced to a new or existing Funding SPV. Moreover, the Group receives income from its Funding SPVs and also income from the activities of Paragon Finance PLC ("**PFPLC**"), Moorgate Asset Administration Limited ("**MAAL**"), Idem Capital Securities Limited ("**ICSL**"), Paragon Mortgages (2010) Limited ("**PML2010**"), Mortgage Trust Limited ("**MTL**") and/or Mortgage Trust Services PLC ("**MTS**") in their capacity as administrator in respect of many of the Funding SPVs, as well as other fee income received by certain members of the Group in respect of services performed in a number of other capacities in relation to the Funding SPVs. Recourse of creditors under each Funding SPV, including, where applicable, PFPLC, MAAL, ICSL, PML2010, MTL and/or MTS as administrator, any members of the Group providing any other services in respect of that Funding SPV, any members of the Group which have provided subordinated loans in respect of a Funding SPV, or any other members of the Group which may be entitled to any other form of income is limited to the assets secured in respect of that Funding SPV and recoveries may only be made pursuant to the applicable order of priorities or payment. In the event that the assets of any Funding SPV are insufficient to satisfy its obligations, the value of the Group's investments by way of subordinated loans and/or the amounts received by PFPLC, MAAL, ICSL, PML2010, MTL and/or MTS as administrator and/or any members of the Group for any other services provided or other income due in respect of that Funding SPV may be adversely affected, and this could have a material adverse effect on the Group's business, results of operations, profitability or financial condition.

The terms of the Group's Funding SPVs permit the replacement of the relevant administrator in certain circumstances. Group members also perform under third party administration contracts. In the event that a member of the Group is replaced as administrator under one or more of the Group's Funding SPVs or loses a third party administration contract, this would reduce the fees and other income earned by the Group in respect of these activities.

***The Group is exposed to the risk of changes in the regulatory capital requirements regime***

Both the Group and Paragon Bank are subject to minimum capital and liquidity requirements which are derived from CRD IV and set by the PRA taking into account the Group's own assessment under its Internal Capital Adequacy Process. CRD IV introduced a number of new capital buffers to provide further capital cushions for additional risks that financial institutions may be subject to. On 5 July 2016, the Bank of England's Financial Policy Committee ("**FPC**") announced the UK counter-cyclical capital buffer rate would be set at 0 per cent. of risk-weighted assets with immediate effect. The FPC has also indicated that it expects to review the counter-cyclical buffer quarterly and to set a UK counter-cyclical capital buffer rate in the region of 1 per cent. of risk-weighted assets when risks are judged to be neither subdued nor elevated but the rate can be set in excess of this. There remains a risk therefore that the UK counter-cyclical capital buffer could lead to an increase in capital requirements applicable to the Group. The PRA also intends to set a PRA buffer for individual banks which is the minimum level of capital buffer required by the PRA and can be set at a level in excess of the combined buffer requirements and any further sectoral capital measures that the PRA has imposed.

The Group's ability to do business (including its borrowing costs and access to capital markets) could be constrained or affected if it fails to maintain sufficient levels of capital to meet these requirements. Further, if Paragon Bank and/or the Group fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against them. Any change that limits Paragon Bank and/or 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, delays in the disposal of certain assets or the inability to raise finance through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Whilst initial policy statements have been provided by the PRA regarding implementation of CRD IV in

the UK, the capital requirements regime is expected to continue to evolve as a result of further changes agreed by EU legislators, binding regulatory technical standards and guidelines to be developed by the EBA and changes to the way in which the PRA interprets and applies these requirements to UK financial institutions. The Group will monitor the ongoing changes to the capital framework which may affect the Group's financial position or require the strengthening of regulatory requirements. Any change in the capital requirements or regime by the PRA, FCA, FPC and/or EU could result in increased costs or funding needs which could adversely impact on the Group's financial performance and results of operations.

***A downgrade in credit ratings, particularly below investment grade, may adversely affect the Group***

The Group's borrowing costs and access to the debt capital markets may be affected by the Issuer's public credit ratings. Depending on the performance of the Issuer and the Group, the Issuer may be subject to the risk of rating downgrades in the sole judgement of the assigning rating agency. In certain circumstances, such a downgrade could result in a below investment grade rating for the Issuer. Any such downgrade in the Issuer's credit ratings, particularly below investment grade, may adversely affect the Group's ability to access capital, could result in more stringent covenants and higher interest rates under the terms of any new indebtedness and may also adversely affect the value of any Notes issued under the Programme. If such an event were to occur, it could have a material adverse effect on the Group's business, results of operations and financial condition.

**Market Risk**

***The Group is exposed to the risk that changes or mismatches in interest rates may adversely affect its net income and profitability***

One of the primary components of the Group's revenue and profits is the difference between the rate at which it borrows and the rate at which it lends.

A substantial and sustained increase in the cost of funds available to finance assets is likely to result in the Group seeking to preserve its net margins, where possible, by increasing the rates it applies to its lending products. An increase in rates available for potential customers could adversely affect the Group's ability to originate loans by weakening demand for its products.

The recalculation and resetting of the interest rates payable by the Group is carried out periodically at intervals which may not coincide with the dates on which the Group is able to change the rates receivable on its loan assets. As a result, its net margin may be adversely affected during such periods where the rates do not match.

A large part of both the Group's funding and its loan assets are determined by reference to LIBOR. In respect of the balance of the Group's assets, where interest rates are not determined by reference to LIBOR, there is a risk that the cost of funding those assets increases as a result of increases in LIBOR at a time when the Group is unable to pass on corresponding increases to the relevant borrowers. Similarly, reductions in the interest payable by those borrowers on their loans may not correspond to reductions in the costs of the funds attributable to those assets. There is also the corresponding risk of increases in the cost of funding on the balance of funding which is not determined by reference to LIBOR which cannot be passed on to the relevant borrowers. The Group seeks to manage and control the potential impact of changes to, and mismatches in, interest rates, however, if the Group is unable to or fails to manage or control these effectively, there could be an adverse impact on the Group's revenue and/or profits which could affect its ability to fulfil obligations under the Notes.

A proportion of the Group's loan assets and retail deposits carry a fixed rate of interest. The Group enters into derivative contracts to hedge the risk from the interest rate mismatch between these fixed rate loan assets and fixed rate funding and the corresponding variable rate funding and variable rate assets. There is a risk that this hedging is not fully effective which could give rise to financial gains or losses to the Group.

***There is a risk that the Group's pension liabilities may be adversely affected by a range of factors including bond yields, inflation rates, interest rates, changes to pension regulations and demographic factors***

The Group operates both a funded and defined contribution pension scheme in the UK. The defined benefit scheme provides benefits based on final pensionable salary and is closed to new members. Low interest rates and the decline in financial markets, as well as changes in demographic factors have produced actuarial deficits that have led to increased cash contributions for the Group. Adverse movements in bond yields, inflation rates, interest rates, changes to pension regulations and demographic factors amongst others may lead to higher pensions costs, cash contributions and scheme deficits in the future which could adversely affect the Group's financial position and its ability to pay interest and repay principal on the Notes.

## **RISKS RELATING TO THE NOTES**

### ***The Notes are subordinated to most of the Issuer's liabilities***

The Notes constitute unsecured and subordinated obligations of the Issuer. On a winding up or administration of the Issuer, all claims in respect of or arising under the Notes will rank junior to the claims of all Senior Creditors of the Issuer. If, on a winding up or administration of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Noteholders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable the Issuer to pay claims arising under its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, the Noteholders will lose some (which may be substantially all) of their investment in the Notes.

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

### ***The Issuer is a holding company***

The Notes are obligations of the Issuer only. The Issuer is a holding company and conducts substantially all of its operations through its subsidiaries (including some of the Funding SPVs and Paragon Bank), and accordingly the claims of the Noteholders under the Notes issued by the Issuer will be structurally subordinated to the claims of creditors of its subsidiaries, which in the case of Funding SPVs are almost all secured creditors (see further "*The value of the Group's Investments and/or income flows in respect of its Funding SPVs may be adversely affected by virtue of their subordination to other payments, limited recourse to assets and underlying terms*"). The Issuer's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except where the Issuer is a creditor of such subsidiary with claims that are recognised to be ranked ahead of or *pari passu* with such claims.

The Issuer is reliant on income from its subsidiaries, Funding SPVs and Paragon Bank and there is a risk that income from its subsidiaries may be reduced, in part or in whole, due to general trading conditions or as a result of restrictions on distribution of income from its subsidiaries either due to the terms and conditions of the Group's Funding SPVs or, in the case of Paragon Bank, action by the regulators.

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

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

The Notes do not contain any restriction on the amount of securities which the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or *pari passu* with, the Notes.

The issue of any such securities and/or the assumption of any such other obligations may reduce the amount recoverable by Noteholders on a winding up or administration of the Issuer.

***The Noteholders will have limited remedies***

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

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes is, subject to certain conditions and to the provisions set forth in Condition 8 (*Events of Default*), for the Trustee to institute proceedings in a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) for the winding-up of the Issuer and/or prove in its winding up and/or claim in its liquidation or administration.

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

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

The Notes bear interest at the Initial Interest Rate from (and including) the Issue Date to (but excluding) the Reset Date. On the Reset Date, the interest rate will be reset to the sum of the 5 Year Mid-Swap Rate (as determined by the Agent Bank on the Reset Determination Date) and the margin of 6.731 per cent. The Reset Interest Rate could be less than the Initial Interest Rate which could affect the market value of an investment in the Notes.

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

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the Regulated Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

***The Notes may be redeemed prior to maturity***

Subject to Supervisory Permission and compliance with the Regulatory Preconditions, the Issuer may, at its option, redeem all (but not some only) of the Notes (i) at any time upon the occurrence of a Tax Event or a Regulatory Event or (ii) on the Reset Date, at their principal amount plus unpaid interest accrued to (but excluding) the redemption date.

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

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

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

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

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

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

### ***Minimum Denomination***

As the Notes have a denomination consisting of the minimum denomination plus an integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £100,000 (or its equivalent) that are not integral multiples of £100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Note Certificate in respect of such holding (should Individual Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination. Further, a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at, or in excess of, the minimum denomination such that its holding amounts to the minimum denomination.

### ***Credit Rating***

The Notes have been assigned a rating of BB+ by Fitch and may in the future be rated by additional independent credit rating agencies (including on an unsolicited basis), although the Issuer is under no obligation to ensure that the Notes are rated by any credit rating agency. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the credit rating agency at any time.

If the Issuer determines to no longer maintain one or more credit ratings, if any other independent credit rating agency decides to assign a rating to the Notes, or if any credit rating agency withdraws, suspends or downgrades any credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), such event could adversely affect the liquidity or market value of the Notes.

### ***Changes in law may adversely affect the rights of Holders***

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

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

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

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Group's business, financial performance, capital and risk management strategies. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore the Issuer's, performance and financial condition. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the Group or the Holders, which could be material.

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

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

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

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

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

## TERMS AND CONDITIONS OF THE NOTES

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

The £150,000,000 7.250 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of The Paragon Group of Companies PLC (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 9 September 2016 (the "Issue Date") (as amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 9 September 2016 (as amended and/or restated and/or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, Citibank N.A., London Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), Citibank N.A., London Branch as agent bank (the "**Agent Bank**", which expression includes any successor agent bank appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents, the Paying Agents and the Agent Bank and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Principal Paying Agent, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below. References to "£", "**sterling**" and "**pounds sterling**" are to the lawful currency for the time being of the United Kingdom.

### 1. **Form and Denomination**

The Notes are issued in registered form in denominations of £100,000 and integral multiples of £1,000 in excess thereof (each, an "**Authorised Denomination**").

### 2. **Register, Title and Transfers**

- (a) *Register:* The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "Holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.



- (c) *Transfers*: Subject to Conditions 2(f) (*Closed periods*) and 2(g) (*Regulations concerning transfers and registration*) below, and to the conditions set forth in the Agency Agreement, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- (d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2(d) (*Registration and delivery of Note Certificates*), "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer or registration.
- (f) *Closed periods*: Noteholders may not require transfers to be registered (i) during the period of 15 days prior to any date on which the Notes may be called for redemption by the Issuer at its option pursuant to Conditions 5(b) (*Redemption at the option of the Issuer*), 5(c) (*Redemption for tax reasons*) and 5(d) (*Regulatory Event Redemption*), (ii) after the Notes have been called for redemption or (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 6(f)).
- (g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

### 3. **Status and Subordination of the Notes**

- (a) *Status*: The Notes constitute direct, unsecured and, in accordance with Condition 3(b) (*Subordination*) subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.
- (b) *Subordination*: In the event of a winding up or administration of the Issuer, the claims of Noteholders and the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) against the Issuer in respect of or arising under the Notes (including any damages awarded for breach of any obligations in respect of the Notes) will be subordinated in the manner provided herein and in the Trust Deed to the claims of all Senior Creditors (as defined below) but shall rank:

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

In these Conditions:

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

"**CRD IV Directive**" means Directive (2013/36/EU) of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time;

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

"**Group**" means the Issuer and its subsidiaries;

"**Regulatory Capital Requirements**" means any requirements contained in the laws, regulations, requirements, standards, guidelines and policies of the Competent Authority, any other national and/or European authority, then in effect in the United Kingdom (or in such other jurisdiction in which the Issuer may be incorporated or domiciled) relating to capital adequacy and applicable to the Issuer and/or the Group including, as at the date hereof, the CRD IV Directive, the CRD IV Regulation and related technical standards;

"**Senior Creditors**" means creditors of the Issuer (i) who are unsubordinated creditors of the Issuer; and (ii) who are subordinated creditors of the Issuer (whether only in the event of a winding-up of the Issuer or otherwise) other than (x) those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders or (y) those whose claims are in respect of Parity Securities or Junior Securities; and

"**Tier 1 Capital**" and "**Tier 2 Capital**" have the respective meanings given to such terms (or any successor such terms) in the Regulatory Capital Requirements from time to time.

- (c) *Set-Off*: Subject to applicable law, no Noteholder may exercise or claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes and each

Noteholder will, by virtue of their holding of any Note, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts due and payable to any Noteholder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding up, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

#### 4. **Interest**

(a) *Interest and Interest Payment Dates*

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the applicable Interest Rate in accordance with the provisions of this Condition 4 (*Interest*). Interest will be payable semi-annually in arrear on 9 March and 9 September of each year from (and including) 9 March 2017 up to (and including) the Maturity Date (as defined below) (each an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

(b) *Interest Accrual*

Each Note will cease to bear interest from and including its due date for redemption unless, upon due surrender of the relevant Note Certificate, payment of the principal due in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Registrar or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Calculation of interest*

Interest shall be calculated per Calculation Amount. Accordingly, the amount of interest payable in respect of a Note for a relevant period for which interest is to be calculated shall be calculated by (i) multiplying the Day Count Fraction by the product of the Calculation Amount and the applicable Interest Rate, (ii) rounding the resultant figure to the nearest £0.01 (£0.005 being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the principal amount of such Note and the denominator of which is the Calculation Amount.

The amount of interest payable on each Interest Payment Date up to (and including) the Reset Date will be £36.25 per Calculation Amount.

For the purposes of these Conditions:

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

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (1) the number of days in the Regular Period in which the relevant period falls and (2) two; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

(d) *Initial Interest Rate and Reset Interest Rate*

Interest will accrue:

- (i) at 7.250 per cent. per annum (the "**Initial Interest Rate**") from (and including) the Issue Date to (but excluding) 9 September 2021 (the "**Reset Date**"); and
- (ii) thereafter at the Reset Interest Rate,

and references in these Conditions to the "**applicable Interest Rate**" shall be construed accordingly.

The "**Reset Interest Rate**" shall be the sum of the 5 Year Mid-Swap Rate (as determined by the Agent Bank on the date (the "**Reset Determination Date**") falling two Business Days prior to the Reset Date) and the initial margin of 6.731 per cent., rounding the resultant figure to three decimal places (with 0.0005 being rounded down) where:

"**5 Year Mid-Swap Rate**" means:

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

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

"**Reset Reference Bank Rate**" means the percentage rate determined on the basis of the 5 Year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Agent Bank at approximately 11:00 a.m. (London time) on the Reset Determination Date. The Agent Bank will request the principal London office of each of the Reset Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided and, if no quotations are provided, the Reset Reference Bank Rate will be 0.519 per cent.;

"**Reset Reference Banks**" means five leading swap dealers in the London interbank market (excluding the Agent Bank or any of its affiliates) selected by 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, in each case, 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) *Determination and Notification of the Reset Interest Rate*

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on the Reset Determination Date, determine the Reset Interest Rate and shall promptly thereafter notify the same to the Issuer, the Paying Agents, the Trustee and any stock exchange on which the Notes are for the time being listed or admitted to trading or other relevant authority. As soon as reasonably practicable thereafter (and in any event no later than the fourth Business Day following the Reset Date), the Agent Bank shall cause notice of the Reset Interest Rate to be given to the Noteholders in accordance with Condition 15 (*Notices*).

The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of a manifest error, and the amended Reset Interest Rate shall promptly thereafter be notified to the Issuer, the Paying Agents, the Trustee, any stock exchange on which the Notes are for the time being listed or admitted to trading and to the Noteholders in accordance with Condition 15 (*Notices*).

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

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained whether from or by the Reset Reference Banks (or any of them) or the Agent Bank for the purposes of this Condition 4 (*Interest*) shall, in the absence of manifest error, be binding on the Issuer, the Trustee, the Registrar, any Paying Agent, the Agent Bank and the Noteholders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Noteholders will attach to the Reset Reference Banks (or any of them) in connection with any such quotations or the Agent Bank in connection with the exercise or non-exercise of any of its powers, duties and discretions under this Condition with respect to the Notes.

5. **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 9 September 2026 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).
- (b) *Redemption at the option of the Issuer*: The Issuer may, in its sole discretion but subject to Condition 5(g) (*Conditions to Redemption*) and having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), the Trustee and the Agents (which notice shall be irrevocable), elect to redeem the Notes, in whole but not in part, on the Reset Date at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date fixed for redemption.
- (c) *Redemption for tax reasons*: Subject to Condition 5(g) (*Conditions to Redemption*), the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), the Trustee and the Agents (which notice shall be irrevocable) at an amount equal to their principal amount, together with unpaid interest accrued to (but excluding) the date fixed for redemption, if as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which the Relevant Jurisdiction is a party, or any change in the official application of such laws or regulations which change or amendment becomes effective on or after the Issue Date, including a decision of any court or tribunal which becomes effective on or after the Issue Date and which differs from what had previously been the generally accepted understanding of the law:
- (i) the Issuer will or would on the next Interest Payment Date be required to pay, Additional Amounts as provided or referred to in Condition 7 (*Taxation*); or

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

(each a "**Tax Event**").

In these Conditions, "**Relevant Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

Prior to giving notice of redemption in accordance with this Condition 5(c) (*Redemption for tax reasons*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions for redeeming the Notes pursuant to this Condition 5(c) (*Redemption for tax reasons*) have been met. The Trustee may accept and rely on any such certificate as sufficient evidence of the matters set out therein and shall not be required to call for any further evidence in respect thereof and, if it does so accept and rely, such certificate shall be binding on the Trustee and the Holders.

Upon the expiry of any such notice referred to in this Condition 5(c) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(c) (*Redemption for tax reasons*).

- (d) *Regulatory Event Redemption*: Subject to Condition 5(g) (*Conditions to Redemption*) below, the Notes may be redeemed at the option of the Issuer, in whole but not in part, at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date of redemption, at any time on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), the Trustee and the Agents (which notice shall be irrevocable), if there is a change in the regulatory classification of the Notes which becomes effective on or after the Issue Date that results, or would be likely to result, in the whole or any part of the principal amount of the Notes at any time being excluded from the Group's Tier 2 Capital (a "**Regulatory Event**").

Prior to giving notice of redemption in accordance with this Condition 5(d), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the conditions for redeeming the Notes pursuant to this Condition 5(d) (*Regulatory Event Redemption*) have been met. The Trustee may accept and rely on any such certificate as sufficient evidence of the matters set out therein and shall not be required to call for any further evidence in respect thereof and, if it does so accept and rely, such certificate shall be binding on the Trustee and the Holders.

- (e) *Purchase*: Subject to obtaining Supervisory Permission, the Issuer or any of its Subsidiaries may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements. Such Notes may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, surrendered to the Registrar or any Paying Agent for cancellation.
- (f) *Cancellation*: All Notes redeemed pursuant to this Condition 5 will be cancelled.
- (g) *Conditions to Redemption*: Any redemption under Conditions 5(b) (*Redemption at the option of the Issuer*), 5(c) (*Redemption for tax reasons*) or 5(d) (*Regulatory Event Redemption*) is subject to the Issuer obtaining Supervisory Permission and to compliance with the Regulatory Preconditions.

In these Conditions:

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

"**Issue Date**" means 9 September 2016.

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

- (i)
  - (A) the Group having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Group; or
  - (B) the Issuer having demonstrated to the satisfaction of the Competent Authority that the own funds of the Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Competent Authority considers necessary at such time; and
- (ii) in the case of a redemption pursuant to Condition 5(c) (*Redemption for tax reasons*) or 5(d) (*Regulatory Event Redemption*) occurring prior to the fifth anniversary of the Issue Date only,
  - (A) in the case of a redemption due to the occurrence of a Regulatory Event, the Competent Authority considering such change to be sufficiently certain and the Issuer having demonstrated to the satisfaction of the Competent Authority that such Regulatory Event was not reasonably foreseeable as at the Issue Date; or
  - (B) in the case of a redemption due to the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the Competent Authority that such Tax Event is material and was not reasonably foreseeable as at the Issue Date,

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

The granting of Supervisory Permission in respect of such redemption shall be treated by the Issuer, the Trustee, the Holders and all other interested parties as conclusive and sufficient evidence of the satisfaction of these pre-conditions.

"**Subsidiary**" has the meaning given to it in Section 1159 of the Companies Act 2006.

**"Supervisory Permission"** means, in relation to any actions, such supervisory permission required therefor within prescribed periods from, the Competent Authority, or such waiver of the then prevailing Regulatory Capital Requirements from the Competent Authority, as is required under the then prevailing Regulatory Capital Requirements.

6. **Payments**

- (a) *Principal:* Payments of principal shall be made by sterling cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a sterling account maintained by the payee with, a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest:* Payments of interest shall be made by sterling cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a sterling account maintained by the payee with, a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* Where payment is to be made by transfer to a sterling account, payment instructions (for value the due date, or, if the due date is not a payment business day, for value the next succeeding payment business day) will be initiated and, where payment is to be made by sterling cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a payment business day or (B) a cheque mailed in accordance with this Condition ) 6Payments) arriving after the due date for payment or being lost in the mail. In this Condition 6(d), "**payment business day**" means any day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.



7. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been receivable by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

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

In these Conditions, "**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 Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

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

8. **Events of Default**

- (a) If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction), without further notice:
  - (i) *Non-payment*: in the event that any principal or interest on the Notes has not been paid within 7 days (in the case of principal) and within 14 days (in the case of interest) from the due date for payment, institute proceedings in a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer

is organised) (but not elsewhere) for the winding-up of the Issuer and/or prove in its winding up and/or claim in its liquidation or administration, **provided that** the Issuer shall not be in default if it satisfies the Trustee during the 7 or 14 day period (as applicable) that such sums were not paid in order to comply with any mandatory law, regulation or order of any court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, the Issuer will not be in default if it acts on the advice given to it during such period by independent legal advisers acceptable to the Trustee; or

- (ii) *Limited remedies for breach of Performance Obligations*: institute such proceedings against the Issuer as it may think fit to enforce any term, obligation or condition binding on the Issuer under the Notes or the terms of the Trust Deed (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest) (a "**Performance Obligation**"); **provided always that** the Trustee (acting on behalf of the Noteholders but not the Trustee acting in its personal capacity under the Trust Deed) and the Noteholders shall not enforce, and shall not be entitled to enforce or otherwise claim against the Issuer, any judgment or other award given in such proceedings that requires the payment of money by the Issuer, whether by way of damages or otherwise (a "**Monetary Judgment**"), except by proving such Monetary Judgment in a winding up of the Issuer and/or claiming such Monetary Judgment in an administration of the Issuer.

Nothing in this Condition 8(a) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

- (b) If a Winding-Up Event occurs, the Trustee at its discretion may and, if so requested in writing by the holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) declare the Notes to be due and repayable immediately (and the Notes shall thereby become so due and repayable) at their outstanding principal amount together with any accrued but unpaid interest as provided in the Trust Deed and payments are subject to the subordination provisions set out in Condition 3 (*Status and Subordination of the Notes*).

No Holder of any Notes shall be entitled to proceed directly against the Issuer or institute any of the proceedings referred to in this Condition 8 (*Events of Default*) or to prove in the winding up of the Issuer, except that, if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so or, being able to prove in such winding up, fails to do so, in each case within a reasonable period, and in each such case such failure shall be continuing, then any such Holder may itself institute such proceedings and/or prove in such winding up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of its Notes.

No remedy against the Issuer other than the institution of the proceedings referred to above or proving in the winding up of the Issuer, shall be available to the Trustee or the Holders of the Notes whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

In these Conditions, "**Winding-Up Event**" means with respect to the Notes, if (i) a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer may be incorporated) makes an order for the winding-up of the Issuer which is not successfully appealed within 30 days of the making of such order or the Issuer's shareholders adopt an effective resolution for the winding-up of the Issuer (except, in any such case, a solvent winding up solely for the purposes of a reorganisation, reconstruction, merger or amalgamation the terms of which, have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Holders and do not provide that the Notes thereby become redeemable or repayable in

accordance with these Conditions); or (ii) following the appointment of an administrator of the Issuer, the 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.

9. **Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes, subject to Condition 6 (*Payments*).

10. **Replacement of Note Certificates**

If any Note 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, competent authority and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and/or Registrar may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. **Trustee and Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

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

The initial Agents and their initial Specified Offices are set out in the Agency Agreement. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent or agent bank and additional or successor paying agents and transfer agents; **provided, however, that** the Issuer shall at all times maintain:

- (a) a Principal Paying Agent, a Registrar, a Transfer Agent and an Agent Bank; and
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, a paying agent and a transfer agent in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority).

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 15 (*Notices*).

12. **Meetings of Noteholders; Modification and Waiver; Substitution**

- (a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests relating to the Notes, including the modification or abrogation by Extraordinary Resolution of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution, subject to Condition 12(d) (*Competent Authority notice or consent*). Such a meeting may be convened by the Issuer or by the Trustee and shall be

convened by the Issuer upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to modify the provisions of Condition 3 (*Status and Subordination of the Notes*) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than two thirds or, at any adjourned meeting, not less than one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and whether or not they voted on the resolution.

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

- (b) *Modification and waiver:* Subject to Condition 12(d) (*Competent Authority notice or consent*), the Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) or the Agency Agreement which is, in the opinion of the Trustee not materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is, in the Trustee's opinion, of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) or the Agency Agreement if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

- (c) *Substitution:* Subject to (i) Condition 12(d) (*Competent Authority notice or consent*), (ii) such amendments to the Trust Deed as the Trustee may require and (iii) certain other conditions set out in the Trust Deed being complied with (including, the Trustee being of the opinion that the substitution is not materially prejudicial to the interest of the Noteholders), but without the consent of Noteholders, the Trustee may also agree to the substitution in place of the Issuer (or of any previous substitute under this Condition) of any other company being a Subsidiary of the Issuer as the principal debtor under the Notes and the Trust Deed.

Unless the Trustee agrees otherwise, any such substitution shall be notified to the Noteholders as soon as practicable thereafter.

- (d) *Competent Authority notice or consent:* The provisions relating to the Notes shall only be capable of modification or waiver and the Issuer may only be substituted in accordance with Condition 12(c) (*Substitution*) above, if the Issuer has notified the Competent Authority of such modification, waiver or substitution and/or obtained the permission of the Competent Authority, (if such notice and/or consent is then required by the Regulatory Capital Requirements).

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

13. **Rights of the Trustee**

- (a) *Indemnification and protection of the Trustee:* The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the Noteholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.
- (b) *Trustee Contracting with the Issuer:* The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) 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, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.
- (c) *Reliance by Trustee on reports, confirmations, certificates and advice:* The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institutions or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice in which event such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.
- (d) *Trustee's remuneration:* The provisions of Condition 3 (*Status and Subordination of the Notes*) apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Condition 3 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.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them and/or the

issue price thereof) so that the same shall be consolidated and form a single series with the Notes. Any further securities which are to form a single series with the Notes constituted by the Trust Deed or any supplemental deed shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

15. **Notices**

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

16. **Governing Law and Jurisdiction**

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

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate that is registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depository for the Clearing Systems.

The Global Note Certificate contains provisions that modify the Conditions as they apply to the Notes evidenced by the Global Note Certificate, and a summary of certain of those provisions is set out below.

### Exchange for Individual Note Certificates

Registration of title to Notes in a name other than that of Citivic Nominees Limited (or any replacement or successor nominee for the Clearing Systems) will be permitted only if (i) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 8 (*Events of Default*) occurs. The Issuer shall notify the registered holder of the Global Note Certificate of the occurrence of any of the events specified in (i) and (ii) as soon as practicable thereafter.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any registered holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has either the office identified with its name in the Conditions of the Notes or any other office notified to any relevant parties pursuant to the Agency Agreement.

### Accountholder

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the registered holder of the Global Note Certificate in accordance with and subject to the terms of the Global Note Certificate and the Trust Deed.

### Transfers

Book-entry interests in the Notes represented by the Global Note Certificate are transferable only in accordance with, and subject to, the provisions hereof and the rules and operating procedures of the Clearing Systems. Transfers of such book-entry interests will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants.

### Payments

Payments due in respect of Notes represented by the Global Note Certificate which, according to the Conditions, require surrender or endorsement of a Note Certificate, shall be made to or to the order of the

registered holder and such payment will discharge the obligations of the Issuer in respect of the relevant payment under the Notes. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to or to the order of the registered holder.

### **Notices**

Notwithstanding Condition 15 (*Notices*), so long as all of the Notes are represented by the Global Note Certificate and the Global Note Certificate will be held on behalf of the Clearing Systems, or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) for communication to the relative accountholders rather than by publication as required by Condition 15 (*Notices*) **provided that**, so long as the Notes are admitted to listing or trading on any stock exchange, such notice is also given in a manner which complies with the rules and regulations of such stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) as aforesaid.

### **Payment Business Day**

In the case of all payments made in respect of the Global Note Certificate, so long as the Global Note Certificate is held on behalf of a Clearing System or an Alternative Clearing System, the definition for "**payment business day**" in Condition 6(d) (Payments on business days) shall be amended and shall be any day on which banks are open for general business (including dealings in foreign currencies) in London.

### **Record Date**

For so long as all Notes are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 6(f) (*Record Date*) **provided that** the words "fifteenth day" shall be deemed to be replaced with "**Clearing System Business Day**". "**Clearing System Business Day**" means a day on which each clearing system is open for business.

### **Calculation of interest**

For so long as all of the Notes outstanding are represented by the Global Note Certificate, interest will be calculated in respect of the aggregate principal amount of the Notes represented by the Global Note Certificate (and not per Calculation Amount as provided in Condition 4(c) (*Calculation of interest*)) but otherwise in accordance with Condition 4 (*Interest*).

### **Clearing Systems**

References in the Global Note Certificate and in this Prospectus to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

### **Electronic Consent and Written Resolution**

For so long as the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of the Clearing Systems and/or an Alternative Clearing System then, in respect of any resolution proposed by the Issuer or the Trustee:

- (a) where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Noteholders through the Clearing Systems and/or an Alternative Clearing System as provided in the Trust Deed, each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing Systems and/or an Alternative Clearing System, as the case may be, to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the Notes outstanding by close of business on the relevant time and date for the blocking of their accounts in the relevant Clearing System and/or Alternative Clearing System (an "**Electronic Consent**"). Any resolution



passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Neither the Issuer nor the Trustee shall be liable or responsible to anyone for such reliance; and

- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (i) by accountholders in the Clearing Systems and/or an Alternative Clearing System, as the case may be, with entitlements to such Global Note Certificate and/or, (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that Accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and, in the case of (ii) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and the accountholder identified by the relevant clearing system for the purposes of (ii) above. Any Written Resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be used for the general financing purposes of the Group.

## DESCRIPTION OF THE ISSUER

### HISTORY AND DEVELOPMENT

#### Incorporation and status

The Paragon Group of Companies PLC ("**Paragon**" or the "**Issuer**") incorporated in England (registered number 02336032) on 17 January 1989 as a public limited company under the Companies Act 1985. Paragon's name on incorporation was Giltfind Public Limited Company. On 28 February 1989, following a reorganisation of the group structure, it changed its name to National Home Loans Holdings PLC and, on 3 March 1997, changed its name to The Paragon Group of Companies PLC. Paragon's registered office and head office is 51 Homer Road, Solihull, West Midlands B91 3QJ, United Kingdom.

Paragon's ordinary shares are listed on the Official List of the FCA and traded on the Regulated Market of the London Stock Exchange plc. Paragon is currently a FTSE 250 company having first become a FTSE 250 company in 2002. Paragon operates through its subsidiary businesses and is the ultimate holding company of the Group. As such, its profitability is dependent upon its subsidiaries.

As at the date of this Prospectus, Paragon has a long term issuer default rating of BBB- by Fitch. This is classified by Fitch as an investment grade rating.

#### History and overview

The Group is a specialist provider of finance focussed on BTL mortgages, debt purchase, asset and development finance, consumer loans and lending to SMEs. At its latest half year reporting date on 31 March 2016, the Group had approximately £10.9 billion of loan assets. The Group distributes its products through financial intermediaries, including mortgage advisers who are directly authorised by the FCA, appointed representatives of financial adviser networks, and commercial finance brokers.

The Group was originally established as a centralised mortgage lender (operating under the National Home Loans brand) focusing on the residential mortgage market. Centralised lenders such as Paragon operate without a branch network, typically distributing their products through intermediaries and raising funds predominantly from wholesale sources through a combination of short term bank facilities and longer term bonds, usually secured against their loan assets (often referred to as securitisations). The Group pioneered the use of securitisation in the UK mortgage market, having launched its first residential mortgage-backed security in 1987 (whilst trading as part of National Home Loans Corporation PLC) and remains a significant issuer.

The centralised lending strategy has been maintained throughout the Group's history. In 1995 the Group became one of the first lenders to work with the lettings industry to develop the BTL market and increasingly focused its lending operations towards this market, rebranding as Paragon Mortgages in 1997. Paragon has maintained a leading position in the BTL market since then and in 2000 became the only major mortgage lender to specialise exclusively in BTL.

The Group diversified its income sources by developing a complementary consumer finance business alongside its BTL lending activity encompassing car finance, retail and secured personal loans. The Group made a series of successful business and portfolio acquisitions, including the acquisition of Britannic Money from Britannic Assurance in 2003.

Idem was established in 2009 and is the Group's debt purchase division, building on the Group's long history of acquiring assets. Operating both on its own and with a series of co-investment partners, Idem acquires portfolios of typically paying loan books being sold by other lenders.

Paragon Bank PLC ("**Paragon Bank**"), a Group subsidiary company, was authorised to take retail deposits by the Prudential Regulation Authority ("**PRA**") on 8 May 2014. Since its launch Paragon Bank has focussed on BTL, consumer lending and more recently asset finance and development finance.

On 3 November 2015 Paragon Bank acquired Five Arrows ("**Five Arrows**") Leasing Group Limited which has since been renamed Paragon Bank Asset Finance Limited ("**PBAF**") from Rothschild & Co. PBAF was formed in 1988 and had been owned by Rothschild & Co since 1996. It offers a range of asset finance products, through its subsidiary brands, to UK SMEs, including vehicle equipment and construction equipment and is also a provider of lease servicing.

## Strategy

The Group's strategy is to operate as a specialist lender in the UK mortgage, consumer finance, and SME markets exploiting its strong risk management capabilities and diversified funding sources. The Group seeks to invest in a diversified range of asset classes creating long term shareholder value by operating:

- as a specialist lender in its chosen markets with a focus on a targeted range of mortgage and consumer finance markets which are underserved by established UK lenders;
- using a low cost centralised business model with the operational and financial capacity to deliver competitive products and enhanced returns;
- an intermediary focussed distribution strategy utilising its established UK-wide broker network;
- a high credit quality lender and purchaser of stable and predictable assets applying rigorous up-front screening and advanced analytics and risk modelling to maintain superior performance; and
- a diversified group with low risk appetite.

Funding diversification is provided by the Group's experience in the securitisation market, which historically has provided the majority of the Group's funding, and the retail and wholesale bond markets where the Group has an established presence. In addition, Paragon Bank is able to raise retail deposits which, since its formation, has experienced strong growth and now forms a key element of the Group's funding diversification strategy, with securitisation now playing a more tactical role as and when market conditions suit. Potential future developments may include broadening lending into other areas including, but not limited to, owner occupied first mortgages, other types of consumer and additional debt classes.

## Business of the Issuer

The Issuer's business is conducted through the Group, which operates through three principal divisions, namely:

- *Paragon Mortgages*: comprises the Group's first mortgage operations, other than the BTL lending of Paragon Bank, and other assets which remain in legacy portfolios;
- *Idem Capital*: operates the Group's debt investment business, Idem Capital Holdings Limited and third party loan administration activity; and
- *Paragon Bank*: is the Group's regulated banking business.

The underlying operating profits of these business segments are detailed below:

	Six month period ended 31 March 2016 <sup>1</sup>	Six month period ended 31 March 2015 <sup>1</sup>	Year ended 30 Sept 2015 <sup>2</sup>	Year ended 30 Sept 2014 <sup>2</sup>
	£m	£m	£m	£m
<b>Underlying operating profit / (loss)</b>				
Paragon Mortgages.....	44.7	44.7	94.0	80.5
Idem Capital.....	25.5	23.6	49.3	48.1
Paragon Bank.....	1.7	(4.4)	(8.6)	(6.4)
	<b>71.9</b>	<b>63.9</b>	<b>134.7</b>	<b>122.2</b>

<sup>1</sup> See further Note 11 on page 59 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further Note 8 on page 177 of the 2015 Audited Consolidated Financial Statements

Underlying operating profit is determined by excluding, from the operating result, one off costs relating to the acquisition of PBAF and fair value accounting adjustments arising from the Group's hedging arrangements, as seen in the table below:

	Six month period ended 31 March 2016 <sup>1</sup>	Six month period ended 31 March 2015 <sup>1</sup>	Year ended 30 Sept 2015 <sup>2</sup>	Year ended 30 Sept 2014 <sup>2</sup>
	£m	£m	£m	£m
Profit before tax for the period .....	69.5	62.6	134.2	122.8
Exclude: Acquisition related costs .....	2.5	-	-	-
Exclude: Fair value losses / (gains) .....	(0.1)	1.3	0.5	(0.6)
<b>Underlying profit before tax .....</b>	<b>71.9</b>	<b>63.9</b>	<b>134.7</b>	<b>122.2</b>

<sup>1</sup> See further Note 11 on page 59 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further Note 8 on page 177 of the 2015 Audited Consolidated Financial Statements

The Group's loan assets include:

- First mortgage assets, with new originations and legacy assets in Paragon Mortgages (2010) Limited ("**Paragon Mortgages**"), new originations in Paragon Bank and purchased assets in Idem Capital;
- Second mortgages, with new originations in Paragon Bank, legacy assets in Paragon Mortgages and purchased assets in Idem Capital;
- Car finance loans, with new originations in Paragon Bank and legacy assets in Paragon Mortgages;
- SME finance loans, with new originations in Paragon Bank;
- Development finance, with new originations in Paragon Bank; and
- Other unsecured consumer lending with purchased assets in Idem Capital and legacy assets in Paragon Mortgages.

The Group's investments in loans and the amounts invested in the year for each division are summarised below:

	Advances and investments in the six month period ended 31 March <sup>1</sup>		Investments in loans as at the six month period ended 31 March <sup>2</sup>		Advances and investments in the year ended 30 Sept <sup>3</sup>		Investments in loans as at the year ended 30 Sept <sup>4</sup>	
	2016	2015	2016	2015	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Paragon Mortgages ...	479.5	384.3	9,105.3	8,993.5	976.6	656.1	9,221.7	8,842.9
Idem Capital.....	24.0	20.9	306.8	406.9	104.4	175.7	451.0	426.5
Paragon Bank.....	654.8	81.4	1,441.0	85.6	409.1	5.8	407.8	5.8
	<b>1,158.3</b>	<b>486.6</b>	<b>10,853.1</b>	<b>9,486.0</b>	<b>1,490.1</b>	<b>837.6</b>	<b>10,080.5</b>	<b>9,275.2</b>

<sup>1</sup> See further page 6 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further Note 15 on page 62 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>3</sup> See further page 26 of the 2015 Audited Consolidated Financial Statements

<sup>4</sup> See further Note 28 on page 197 of the 2015 Audited Consolidated Financial Statements

## 1. Paragon Mortgages

Paragon Mortgages is an independent BTL mortgage lender, with £9,105.3 million in mortgage loans under management as at 31 March 2016, of which £8,920.2 million were BTL mortgages. Paragon Mortgages commenced BTL lending in 1995 and offers BTL loans through both the

Paragon Mortgages and Mortgage Trust brands. It is a member of the Council of Mortgage Lenders' BTL working group and a regular commentator on the sector.

The Paragon Mortgages and Mortgage Trust brands are focused on different segments of the BTL market, with Paragon Mortgages offering loans primarily to landlords operating larger or more complex property portfolios and Mortgage Trust concentrating on those landlords with smaller property portfolios. The Group has the capacity to fund mortgages originated under either brand through both Paragon Bank and Paragon Mortgages. The table below summarises BTL advances for the Group.

**Buy-to-let**

	Completions as at the six month period ended 31 March <sup>1</sup>		Pipeline as at the six month period ended 31 March <sup>1</sup>		Completions as at the year ended 30 Sept <sup>2</sup>		Pipeline as at the year ended 30 Sept <sup>2</sup>	
	2016	2015	2016	2015	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Paragon Mortgages.....	479.5	384.3	151.5	493.7	976.6	656.1	404.2	369.5
Paragon Bank.....	344.1	61.9	199.1	207.7	350.0	0.5	309.5	45.3
	<b>823.6</b>	<b>446.2</b>	<b>350.6</b>	<b>701.4</b>	<b>1,326.6</b>	<b>656.6</b>	<b>713.7</b>	<b>414.8</b>

<sup>1</sup> See further page 7 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further page 26 of the 2015 Audited Consolidated Financial Statements

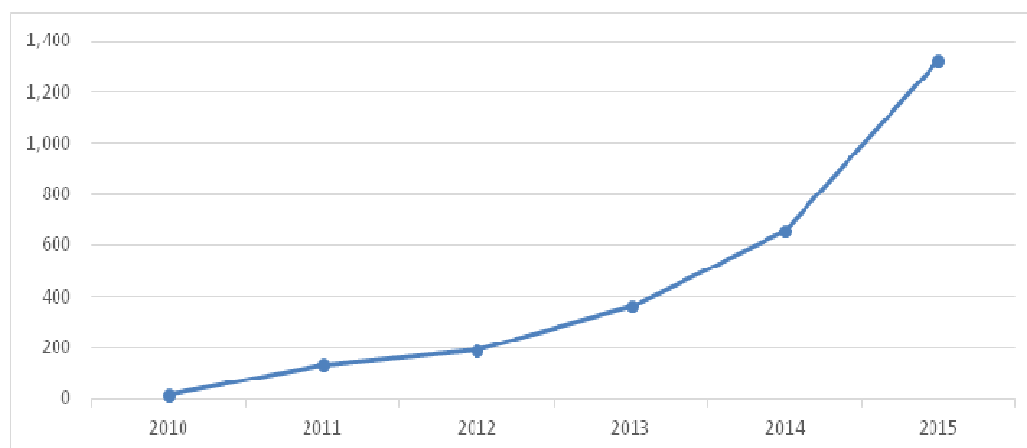
It is anticipated that, over time, the balance of BTL advances between Paragon Mortgages and Paragon Bank will become more equal.

A wide range of social, demographic, political and economic factors have in recent years driven strong growth in private renting, alongside general issues of affordability in the owner occupied sector. Recent impacts on the PRS market include the FCA's Mortgage Market Review ("MMR"), high levels of migration to the UK and the continuing challenge of improving the supply of housing in the UK in the face of population growth and the rate of household formation. This strong and sustained increase in rental demand has led, in turn, to strong demand for BTL finance. The Group has been able to capitalise upon this to a greater extent more recently because of the progress made with the Group's strategy of diversification of funding sources, with Paragon Bank now making a significant contribution to the Group's performance in BTL lending.

The long term trend of the Group's BTL mortgage originations since the Group recommenced BTL lending following the global financial crisis is shown below.

**Consolidated gross buy-to-let mortgage advances (£m)**

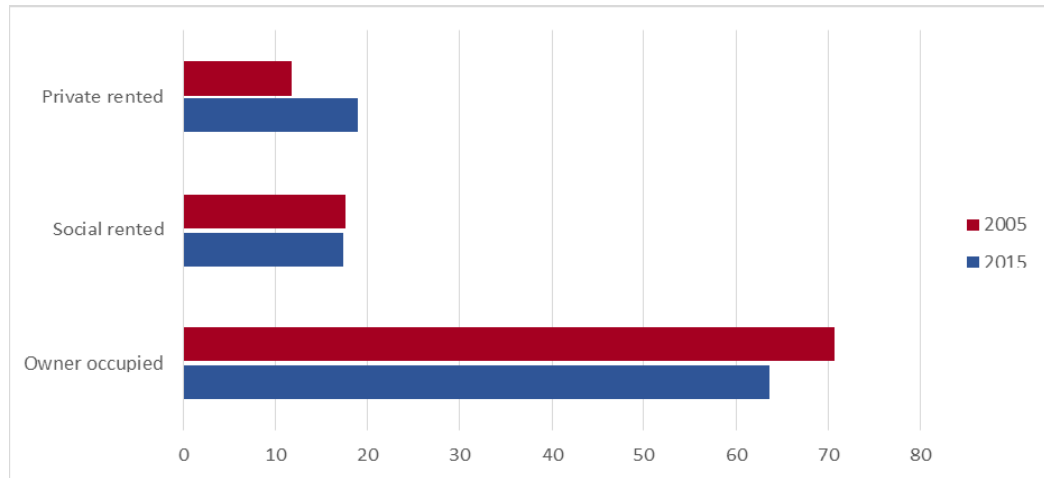
*Year ended 30 September 2015*



The PRS has grown strongly in recent years. Data in the annual Survey of English Housing for 2014-15, published in February 2016 by the Department of Communities and Local Government indicated that the PRS, comprising 19 per cent. of households in England, remains larger than the social rented sector (17 per cent.) with the level of owner-occupation stable. The Royal Institution of Chartered Surveyors reported that, in its survey of members in March 2016, respondents continue to anticipate rents rising at an average rate of 4.5 per cent. per annum, driven by strong tenant demand. In broad terms there has been a weakening of demand for owner-occupied housing, a static social rented sector and a private rented market that is expanding to fill the gap. This is illustrated in the chart below, comparing the distribution of tenure in England in 2015 with the position ten years earlier.

**Change in percentage share of housing tenure 2005 – 2015**

*English Housing Survey 2014-2015*

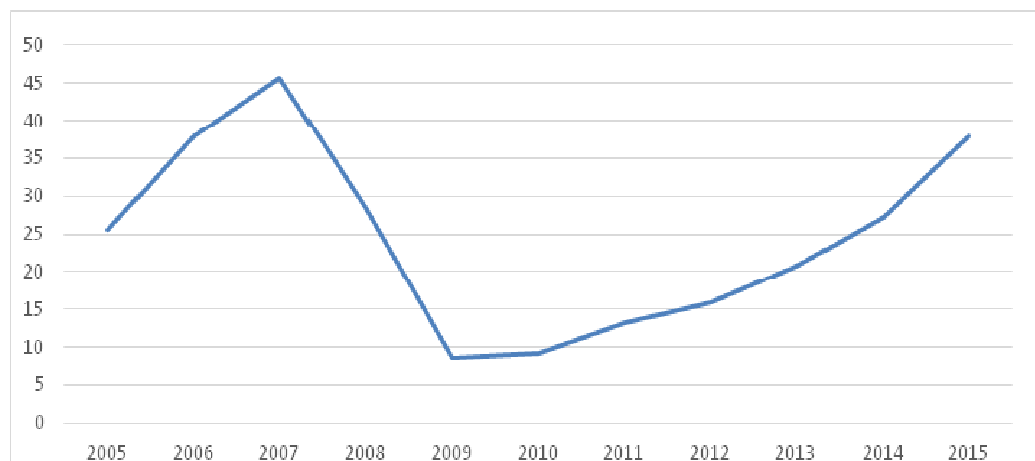


Source: English Housing Survey by the Department of Communities and Local Government published in February 2016.

Strong tenant demand continues to drive demand for BTL mortgages with Council of Mortgage Lenders ("CML") data for the year ended December 2015 showing £37.9 billion of lending compared to £27.2 billion for the previous year, and showed £25.3 billion of gross lending for the most recent six month period ended 31 March 2016 compared to £15.2 billion for the comparable period in the previous year. Whilst growth is strong, in real terms this is viewed as a continuation of the recovery rather than a 'boom' in BTL, illustrated by the fact that BTL lending in 2015 was lower than the peak in 2007.

**Buy-to-let advances - annual**

*CML*



Source: Council of Mortgage Lenders published in May 2016.

The policy environment for the PRS has become more challenging following recent UK Government announcements. On 8 July 2015 the UK Government announced plans to restrict the amount of income tax relief landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax, currently 20 per cent. Such restriction will be introduced gradually from 6 April 2017, giving landlords time to adjust their strategies. Research to date by the industry has indicated that the changes will have a muted impact on the motivation for landlords to invest although some reduction in the rate of growth is anticipated and some landlords are expected to look to increase rents to compensate for their increase in costs. Paragon also expects a number of larger scale landlords to transfer their properties into a corporate structure, an area of the market in which the Group has considerable experience and where there is less competitor capability. In addition, the UK Government has introduced a higher rate of SDLT on the purchase of additional residential properties, which has applied since 1 April 2016. The additional rate is three per cent above the previous SDLT rates (subject to certain exemptions). The policy is designed to "level the playing field" for the benefit of home buyers and, in March 2016, the UK Government announced that there would be no exemption from the higher rates for significant investors, and the higher rates will apply equally to purchases by individuals and corporate investors. However, the changes are not currently expected to fundamentally alter the economics for residential property investors. Since these changes were announced there has been an increase in applications for more complex property portfolios and also within corporate structures.

The Group's outstanding BTL balances are analysed below:

	As at six month period ended		As at year ended	
	31 March 2016	31 March 2015	30 Sept 2015	30 Sept 2014
	£m	£m	£m	£m
Paragon Mortgages.....	8,920.2 <sup>1</sup>	8,749.2 <sup>1</sup>	8,999.1 <sup>2</sup>	8,575.6 <sup>2</sup>
Idem Capital .....	13.9 <sup>1</sup>	15.3 <sup>1</sup>	14.5 <sup>2</sup>	16.0 <sup>2</sup>
Paragon Bank.....	802.2 <sup>1</sup>	62.1 <sup>1</sup>	349.6 <sup>2</sup>	0.5 <sup>2</sup>
	<b>9,736.3<sup>3</sup></b>	<b>8,826.6<sup>3</sup></b>	<b>9,363.2<sup>4</sup></b>	<b>8,592.1<sup>4</sup></b>

<sup>1</sup> See further page 9 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further page 29 of the 2015 Audited Consolidated Financial Statements

<sup>3</sup> See further Note 6 on page 50 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>4</sup> See further page 166 of the 2015 Audited Consolidated Financial Statements

The annualised redemption rate on the overall BTL book is low at 9.2 per cent. as at 31 March 2016, despite the increasing numbers of post credit crisis accounts included in the portfolio which exhibit higher prepayment levels. This performance indicates that the Group's landlord customers continue to display a long-term commitment to property investment.

The Group's policy is to advance BTL mortgages to borrowers with a good credit record and against properties which have sustainable rental demand. Underwriting is conducted by specialist staff employed by the Group at its Solihull Head Office. Each BTL mortgage application goes through a rigorous underwriting process which includes a credit check on all the borrowers, a physical evaluation of the property by in-house or approved panel Chartered Surveyors to assess the market value and expected monthly rent and also a review and sign-off by an experienced mortgage underwriter.

The Group may also request further information from applicants, such as local authority licences and certificates, bank statements, accounting information, and business plans. The Group uses its bespoke Aries IT system to process loan applications and administer completed loans and ensure that applications are processed in accordance with its credit policy. With its dedicated specialist support staff who provide a focus on data analytics and predictive performance measures, the Group Credit Committee controls the Group's overall underwriting policy and monitors performance and compliance at regular meetings which are held at least monthly.



Overall the Group has a robust approach to underwriting with a focus on the credit quality and financial capability of its customers underpinned by a detailed and thorough assessment of the value and suitability of the property as a security. This approach has delivered strong credit performance across historic and current lending.

On 29 March 2016 the PRA issued a consultation paper on underwriting standards for BTL mortgage contracts, setting out proposals regarding its expectations of minimum standards that firms should meet when underwriting BTL mortgage contracts. In January 2016 the Group tightened its BTL lending criteria, increasing the stressed interest rate its minimum interest coverage ratio ("ICR") test from 5.00 per cent. to 5.35 per cent. and embedded forward-looking affordability tests. This represented an early move towards the 5.50 per cent. ICR level proposed in the PRA consultation paper.

New loans have historically and continue to be of a high quality, with a good affordability profile, low average loan-to-value ratios and strong customer credit profiles. The credit performance of the portfolio is positive, with the percentage of loans more than three months in arrears standing at 0.14 per cent. as at 31 March 2016 (31 March 2015: 0.20 per cent.) and remaining considerably better than the CML's comparable market average of 0.56 per cent. at that date (31 March 2015: 0.74 per cent.).

Security values have also benefitted in recent years from the effect of increased house prices. The Nationwide House Price Index showed appreciation in residential property values of 3.8 per cent. over the year to September 2015 (2014: 9.4 per cent.), and by 3.1 per cent. over the most recent six month accounting period to 31 March 2016. The indexed loan-to-value ratio of the buy to let portfolio as at 31 March 2016 was broadly stable at 69.5 per cent. The increase in average prices, however, is part of a more volatile picture, which has been particularly marked at the local and regional level. The Group maintains a specialist team of in-house surveyors to maximise its understanding of particular markets, both from a valuation and lettings standpoint.

The Group manages arrears on BTL mortgages principally through the appointment of a receiver of rent. The number of properties with an appointed receiver of rent stood at 1,004 as at 31 March 2016.

#### **Other assets**

The Paragon Mortgages operating segment also includes income generated from legacy loan books, including owner-occupied mortgages, car loans, secured consumer loans and unsecured consumer loans. Save for the management of these books in run-off, there has been little activity in recent years in these areas. These assets form a small part of the segment's results, when compared to BTL assets and performed in line with Paragon's expectations. Their values are shown below.

	As at six month period ended <sup>1</sup>		As at year ended <sup>2</sup>	
	31 March 2016	31 March 2015	30 Sept 2015	30 Sept 2014
	£m	£m	£m	£m
Owner-occupied mortgages.....	25.0	53.6	47.6 <sup>2</sup>	59.6 <sup>2</sup>
Secured loans.....	155.7	184.9	170.0 <sup>2</sup>	201.0 <sup>2</sup>
Unsecured loans.....	4.4	5.8	5.0 <sup>2</sup>	6.7 <sup>2</sup>
	<b>185.1</b>	<b>244.3</b>	<b>222.6<sup>2</sup></b>	<b>267.3<sup>2</sup></b>

<sup>1</sup> See further page 10 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further page 30 of the 2015 Audited Consolidated Financial Statements

Although the Group has returned to lending in the car finance and secured loan markets, this new lending is now conducted through Paragon Bank.

## 2. **Idem Capital**

Idem Capital is the Group's investment division, investing primarily in loan portfolios and has established itself as one of the leading investors in the UK debt purchase market. Idem Capital's

primary focus is on acquiring paying secured or unsecured loan portfolios either on a standalone or co-investment basis. Idem also services loans for third parties and its co-investment partners.

Investments are made only after significant due diligence on target portfolios and sensitivity testing of potential returns have been completed. Idem Capital utilises the Group's highly developed loan servicing and collection capability which is used for its own purchases and for co-invested and third party assets. The Group has invested heavily in its compliance infrastructure in recent years and is well placed to deliver the operational standards required by the UK regulatory authorities and by portfolio vendors.

Idem Capital also works in partnership with Paragon Bank in the acquisition of assets from third parties, co-investment arrangements and in the sale of assets previously owned by Idem Capital to Paragon Bank. The table below shows the Group's investments in purchased debt, sourced by Idem Capital, including those funded by Paragon Bank through retail deposits.

	Outstanding balance <sup>1</sup>			Current period net investment <sup>1</sup>		
	31 March 2016	31 March 2015	30 Sept 2015	31 March 2016	31 March 2015	30 Sept 2015
	£m	£m	£m	£m	£m	£m
Idem Capital portfolios .....	306.8	389.2	432.9	24.0	20.9	104.4
Co-investments .....	-	17.7	18.1	-	-	-
Idem Capital division assets	306.8	406.9	451.0	24.0	20.9	104.4
Paragon Bank division assets	286.7	-	-	184.8	-	-
	<b>593.5</b>	<b>406.9</b>	<b>451.0</b>	<b>208.8</b>	<b>20.9</b>	<b>104.4</b>

<sup>1</sup> See further page 11 of the 2016 Half-Year Unaudited Consolidated Financial Statements

The outstanding value of the Group's debt purchase investments at 31 March 2016 totalled £593.5 million (31 March 2015: £406.9 million). Of this balance, 64.3 per cent. related to loans secured on property.

At 31 March 2016, the 120 month gross estimated remaining collections ("**ERC**") for Idem Capital's portfolio stood at £509.6 million (31 March 2015: £639.2 million) (see further page 12 of the 2016 Half-Year Unaudited Consolidated Financial Statements). ERC is a common measure of scale in the debt purchase industry reflecting likely future cash flows from the acquired assets over the next ten years, which will reduce over time as balances are collected. At 31 March 2016 cumulative cash receipts across the Group's portfolio acquisitions totalled 108.2 per cent. of the values predicted at the point the loans were acquired (31 March 2015: 105.8 per cent.).

Idem Capital also operates the Group's third party loan servicing and debt recovery business through its Moorgate Loan Servicing Limited subsidiary. Idem Capital's experience in loan management, established over many years, enables it to offer this service to external clients, providing additional revenue to Idem Capital and added value to the performance of third parties' loan portfolios.

### 3. Paragon Bank

As part of the Group's strategy to re-enter the consumer and SME finance markets Paragon Bank, a wholly owned subsidiary of Paragon, began operating on 18 February 2014 following authorisation by the PRA and regulatory approval from the PRA and FCA. Paragon Bank is a retail deposit funded bank using an internet distribution channel for savings and an intermediated channel for its loan products, and provides the Group with increased diversification of both income streams and funding sources. Up to 31 March 2016, the Group has provided capital of £234.9 million to Paragon Bank and its policy is to provide Paragon Bank with further capital in the future which is sufficient to cover its planned requirements over each twelve month period. Since its inception, Paragon Bank has experienced rapid growth and development and has been placed at the heart of the Group's development plans.

Paragon Bank funds its new lending advances and pipeline through savings deposits. Paragon Bank's funding position is summarised below:

	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 September 2015</b>	<b>30 September 2014</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Retail deposits .....	1,426.4 <sup>1</sup>	165.0 <sup>1</sup>	708.7 <sup>4</sup>	60.1 <sup>4</sup>
Loans to customers .....	(1,441.0) <sup>2</sup>	(85.6) <sup>2</sup>	(407.8) <sup>5</sup>	(5.8) <sup>5</sup>
<b>Loan to deposit ratio .....</b>	<b>101.0%</b> <sup>3</sup>	<b>51.9%</b> <sup>3</sup>	<b>57.5%</b>	<b>9.7%</b>

<sup>1</sup> See further Note 25 on page 70 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further Note 15 on page 62 of the 2015 Audited Consolidated Financial Statements

<sup>3</sup> See further page 13 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>4</sup> See further Note 49 on page 210 of the 2015 Audited Consolidated Financial Statements

<sup>5</sup> See further Note 28 on page 197 of the 2015 Audited Consolidated Financial Statements

Paragon Bank has developed a broad range of retail savings products including fixed deposits ranging from one to five years, as well as easy access accounts and notice accounts. Savings products are marketed to individuals through online advertising, comparison sites and financial web pages. Fixed rate deposits form the majority of Paragon Bank's retail deposits as shown in the table below:

	<b>31 March 2016<sup>1</sup></b>	<b>31 March 2015<sup>1</sup></b>	<b>30 September 2015<sup>2</sup></b>	<b>30 September 2014<sup>2</sup></b>
	<i>£m</i>		<i>£m</i>	
Fixed rate.....	891.3	116.1	508.3	39.8
Variable rates.....	535.1	48.9	200.4	20.3
	<b>1,426.4</b>	<b>165.0</b>	<b>708.7</b>	<b>60.1</b>

<sup>1</sup> See further Note 25 on page 70 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further Note 49 on page 210 of the 2015 Audited Consolidated Financial Statements

Since inception Paragon Bank has grown and developed its car finance business under the Paragon Car Finance brand and its secured personal loan business under its Paragon Personal Finance brand. In September 2014 Paragon Bank launched its own range of BTL products under the Mortgage Trust brand using existing Group distribution channels and since then has grown volumes significantly. In November 2015 Paragon Bank also launched a short term property development finance product, supported by specialist employees, to broaden the Group's offering to property investors. During the same month Paragon Bank also acquired PBAF from Rothschilds & Co. PBAF operates in the SME sector and the addition of this business adds capability in asset finance and related businesses to the Group's offerings. Paragon Bank's loan assets are analysed as follows:

	<b>Outstanding balance</b>				<b>Current year advances</b>			
	<b>As at six month period ended<sup>1</sup></b>		<b>As at year ended<sup>2</sup></b>		<b>As at six month period ended<sup>1</sup></b>		<b>As at year ended<sup>2</sup></b>	
	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
BTL.....	802.2	62.1	349.6	0.5	344.1	61.9	350.0	0.5
Car finance.....	73.4	19.7	43.2	5.3	41.2	15.7	43.9	5.3
Personal finance.....	325.9	3.8	15.0	-	210.8	3.8	15.2	-
Asset finance.....	224.9	-	-	-	57.7	-	-	-
Other loans.....	14.6	-	-	-	1.0	-	-	-
	<b>1,441.0</b>	<b>85.6</b>	<b>407.8</b>	<b>5.8</b>	<b>654.8</b>	<b>81.4</b>	<b>409.1</b>	<b>5.8</b>

<sup>1</sup> See further page 14 of the 2016 Half-Year Unaudited Consolidated Financial Statements

<sup>2</sup> See further page 32 of the 2015 Audited Consolidated Financial Statements

## Sources of Funds

The Group uses a diversified range of funding sources to support its lending activities and to provide sufficient liquidity for its day-to-day activities. The Group uses a mixture of either matched or medium to long-term wholesale funding and retail deposits. Other than £3 million of repo funding the Group has no short dated wholesale funding.

The majority of the Group's existing BTL assets are financed through securitisations, and this remains a core funding source for the Group where a large part of new BTL originations within the Group continue to be funded through this route. Securitisation is a method of funding discrete pools of assets where loan assets are sold to a company within the Group specifically set up for funding purposes (a Funding SPV) and whereby lenders have recourse to the underlying assets of that Funding SPV but no recourse to Paragon, or the rest of the Group (often referred to as non-recourse finance or securitisation). This securitisation funding is only legally due for repayment when the underlying BTL loans are repaid, thus the maturity of the funding is matched with the long-dated maturity of the BTL mortgage loans used as security, which substantially reduces the Group's exposure to liquidity risk. The Group's latest securitisation was completed in November 2015, taking total issuance since September 2012 to £2.4 billion. Prior to securitisation, mortgage loans are initially funded by a revolving loan facility (often referred to as a 'warehouse'). A warehouse operates in a similar way to a securitisation and as a non-recourse financing, although the facility can be reused once the BTL mortgages in the warehouse have been securitised. This feature makes warehouse funding typically more expensive than securitisation. The Group currently has warehouse facilities from three banks totalling £850 million.

Idem Capital is funded from a mixture of Group funds and non-recourse SPV funding facilities within Idem Capital which are carried out in the same manner as securitisations for a set term from bank lenders. The most recent funding facility for Idem was completed in October 2015 for £117.3 million, following which 37.9 per cent. of Idem Capital's loan investment balances as at 30 September 2015 were externally funded. This facility was increased by a further £4.1 million in December 2015 and by £70.8 million in April 2016.

The primary funding source of funds for Paragon Bank is retail deposits which it began taking in June 2014 and has since grown strongly to £1,426.4 million as at 31 March 2016. Going forward Paragon Bank expects retail deposits to remain its primary source of funds. Paragon Bank now forms a key element of the Group's funding diversification strategy and an increasingly important element of new funding, with securitisation playing a more tactical role as and when market conditions suit.

Working capital for the Group is generated through a mixture of internally generated cash profit mainly arising from the Group's mortgage funding SPV and Idem Capital, which are significantly cash generative, and external debt. As at 30 September 2015, the Issuer had a total of £407.5 million of fixed term bonds outstanding, which provide the Group's working capital. The Issuer has issued to date £297.5 million under its £1 billion Euro Medium Term Note programme, with maturities ranging from 2020 to 2024, and, in addition, has issued a £110 million subordinated bond which matures in April 2017.

The Issuer maintains an amount of cash on its balance sheet to operational costs and other outflows such as debt servicing, tax and dividends as well as projected funding needs to support investments in each of its divisions. Internally generated cash from investments in the operating divisions for the six months ended 31 March 2016 totalled £175.3 million (31 March 2015: £137.9 million). After taking into consideration debt servicing, operating expenses and tax this amounted to £109.2 million in operating cash flow for the six months ended 31 March 2016 (31 March 2015: £80.5 million). Net investments in the Group's businesses including share buy-backs totalled £134.7 million for the six months to 31 March 2016 (31 March 2015: £32.8 million). These figures highlight the cash flows at operating level compared to the Group cash flow figures (see further "*Consolidated Cash flow Statement*" below) which are at consolidated Group level, not all of which arises from or is available for use by the Issuer. After payment of dividends cash available for use by the Issuer amounted to £152.7 million as at 31 March 2016 (31 March 2015: £206.7 million).

The Group generally favours a high level of earnings retention to support growth. In 2013, the Group signalled an intention to bring its dividend cover ratio down from over five times to a three - three and a half times range by the end of 2016. As at 30 September 2015, the dividend cover ratio was 3.2 times.

### Capital and capital management

The Group is subject to supervision by the PRA on a consolidated basis, as a group containing an authorised bank. As part of this supervision the PRA will issue individual capital guidance setting an amount of regulatory capital, defined under the international Basel III rules, implemented through CRD IV, which the Group is required to hold relative to its risk weighted assets in order to safeguard depositors against the risk of losses being incurred by the Group.

The Group's regulatory capital is monitored by the Board of Directors and the Asset and Liability Committee, who ensure that appropriate action is taken to enable compliance with the regulator's requirements. The future regulatory capital requirement is also considered as part of the Group's forecasting and strategic planning process.

As at 30 September 2015, the Group's regulatory capital was comfortably in excess of that required by the regulator. The table below highlights the Group's regulatory capital position and ratios:

	<b>31 March 2016<sup>1</sup></b>	<b>31 March 2015<sup>1</sup></b>	<b>30 Sept 2015<sup>2</sup></b>	<b>30 Sept 2014<sup>2</sup></b>
	<i>(unaudited)</i> £m	<i>(unaudited)</i> £m	<i>(audited)</i> £m	<i>(audited)</i> £m
<b>Regulatory Capital and Risk Exposure</b>				
Common equity tier 1 ("CET1") capital .....	865.2	933.5	939.7	920.4
Total tier 2 capital .....	26.7	48.4	36.6	60.7
Total regulatory capital .....	891.9	981.9	976.3	981.1
<b>Total Risk Exposure and Solvency Ratios</b>				
Total risk exposure .....	5,389.9	4,784.0	4,929.3	4,629.5
CET1 .....	16.1%	19.5%	19.1%	19.9%
Total regulatory capital .....	16.5%	20.5%	19.8%	21.2%
<b>Leverage Ratio</b>				
Total leverage exposure .....	12,976.8	11,571.7	12,181.5	11,062.8
Leverage Ratio .....	6.7%	8.1%	7.7%	8.3%

1 See further Note 4 on pages 44, 45 and 46 of the 2016 Half-Year Unaudited Consolidated Financial Statements

2 See further Note 6 on pages 162 and 163 of the 2015 Audited Consolidated Financial Statements

Total regulatory capital, total risk exposure and the leverage ratio are calculated in accordance with CRD IV. The Standardised Approach is used for the calculation of credit risk exposure and the Basic Indicator Approach (each as defined under the Basel III framework) for the calculation of operational risk which is included within the total risk exposure. The above regulatory capital disclosures relate only to the consolidated position for the Group. Individual entities within the Group are also subject to supervision on a standalone basis. All such entities comply with the requirements to which they are subject.

### Recent Events

There are no recent events that are material to an evaluation of the Issuer's solvency.

### Management of The Paragon Group of Companies PLC

The directors of the Issuer, their functions within the Group and their principal activities outside the Group where these are significant with respect to the Group are as follows:

<b>Name</b>	<b>Role</b>	<b>Principal activities outside the Group</b>
Robert Dench	Chairman	Non-Executive Director of AXA UK plc, director of other AXA Group companies, and Chairman of AXA Ireland Limited
Nigel Terrington	Chief Executive	Member of the HM Treasury's Home Finance Forum  Bank of England's Residential Property

<u>Name</u>	<u>Role</u>	<u>Principal activities outside the Group</u>
		Forum
		Member of the Chairman's Committee and the Executive Committee of the Council of Mortgage Lenders
Richard Woodman	Group Finance Director	None
John Heron	Director of Mortgages	Board Member of the Intermediary Mortgage Lenders Association
		Chair of the Council of Mortgage Lenders buy-to-let panel
Hugo Tudor	Non-Executive Director	Director of Damus Capital Limited
Alan Fletcher	Non-Executive Director	Trustee of the Church of England Pensions Board and Chair of its Investment Committee and Member of its Pensions Committee, Chairman of the Diocese of Leicester Investment Committee, Member of the Finance Committee of Leicester Cathedral, and Director of CEPB Mortgages Limited.
	Chair of the Paragon Remuneration Committee	
	Trustee of the Paragon Pension Plan	
Peter Hartill	Non-Executive Director	Chairman of Deeley Group Limited
	Chair of the Paragon Audit Committee	Non-Executive Director of Scott Bader Company Limited
	Non-Executive Director	A&J Mucklow Group PLC
Fiona Clutterbuck	Non-Executive Director	Head of Strategy, Corporate Development and Communications at the Phoenix Group and director of other Phoenix Group companies
	Chair of the Paragon Risk and Compliance Committee	
	Senior Independent Director	Non-Executive Director of WS Atkins plc

The business address of each of the above individuals is 51 Homer Road, Solihull, West Midlands B91 3QJ.

There are no potential conflicts of interest between the duties to the Issuer of the directors listed above and their private interests or other duties.

### **Corporate Governance**

The Board of Directors (the "**Board**") is committed to the principles of corporate governance contained in the UK Corporate Governance Code issued by the Financial Reporting Council ("**FRC**") in September 2014 and which is publicly available at [www.frc.org.uk](http://www.frc.org.uk).

The Board is responsible for overall Group strategy, for approving major agreements, transactions and other financing matters and for monitoring the progress of the Group against budget. All directors receive sufficient relevant information on financial, business and corporate issues prior to meetings and there is a formal schedule of matters reserved for decision by the Board, which includes material asset acquisitions and disposals, granting and varying authority levels of the Chairman and the executive directors, determination and approval of the Group's objectives, strategy and annual budget, investment decisions, corporate governance policies and financial and dividend policies.

The division of responsibilities between the Chairman and Chief Executive is clearly established, set out in writing and agreed by the Board. There is a strong non-executive representation on the Board, including a Senior Independent Director, the purpose of this is to provide effective balance and challenge.

The Board has agreed a set of guiding principles on managing conflicts and a process to identify and authorise any conflicts which might arise. At each meeting of the Board actual or potential conflicts of interest in respect of any director are reviewed.

The Board regularly receives, reviews and considers reports on the following matters:

- Strategic matters
- Potential acquisition opportunities
- Business performance
- Results, management accounts and financial commentary
- Operational reports from business areas
- Treasury and funding matters
- Legal and governance matters
- The work of the Board's committees
- Matters arising from subsidiary company boards, including that of Paragon Bank
- Investor relations and shareholder feedback

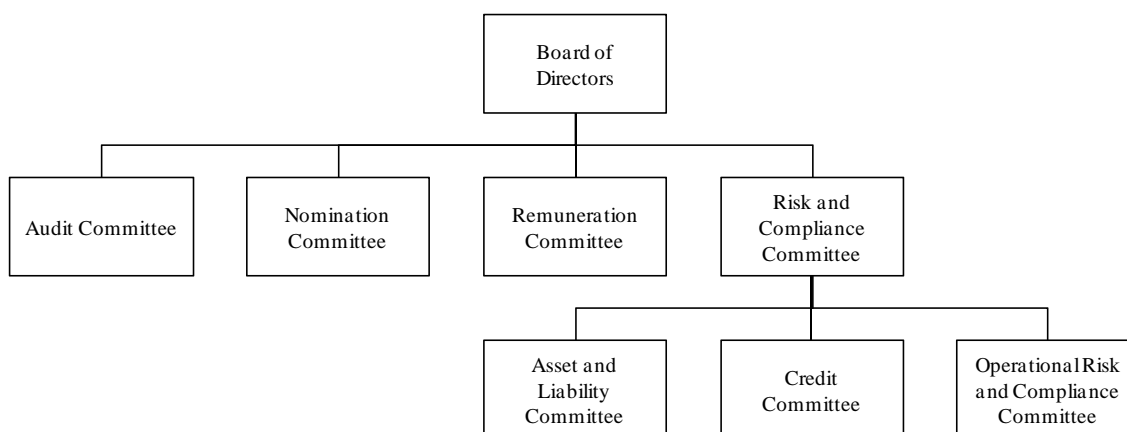
All of the non-executive directors are independent of management and all are appointed for fixed terms. They are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues. The non-executive directors meet with the Chairman, from time to time, without the presence of the executive directors.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

All directors are able to take independent professional advice in the furtherance of their duties whenever it is considered appropriate to do so and have access to such continuing professional development opportunities as are identified as appropriate in the Board appraisal process.

The Board considers that each of the current non-executive directors are independent of the Group and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Board also operates through a number of committees covering certain specific matters. The composition of these subsidiary committees was last reviewed in April 2014 when the implementation of the following structure was approved:



### ***Audit Committee***

The Audit Committee monitors and reviews:

- the integrity of the Group's financial reporting;
- the Group's internal financial control;
- the effectiveness of the internal audit function; and
- the relationship between the Group and the external auditors.

The Committee also reviews the scope and results of the annual external audit, its effectiveness and the independence and objectivity of the external auditors. This Committee acts as the key forum through which the internal and external auditors report to the non-executive directors. Both the Audit Committee and the external auditors have in place safeguards to avoid compromises of the independence and objectivity of the external auditors.

At the Annual General Meeting of the Issuer on 11 February 2016 a resolution was put to shareholders to appoint KPMG LLP as the auditors for the Issuer, this resolution was approved. KPMG LLP, One Snowhill, Snow Hill Queensway, Birmingham B4 6GH, United Kingdom has also been appointed as the auditors to all the companies in the Group for the year ended 30 September 2016. The appointment of KPMG LLP followed a formal tender process and was in the ordinary course of business.

### ***Risk and Compliance Committee***

The Risk and Compliance Committee monitors and reviews:

- the effectiveness of the Group's risk management framework and the extent to which the risks inherent in the Group's business activities are controlled within the risk appetite established by the Board;
- the effectiveness of the Group's systems and controls for compliance with its statutory and regulatory obligations; and
- the appropriateness of the Group's risk culture, to ensure it supports the Group's stated risk appetite.

Reporting to the Risk and Compliance Committee are three executive level risk committees comprising: the Asset and Liability Committee which oversees mainly liquidity, funding, interest rate and Treasury risks, the Credit Committee which oversees credit counterparty and portfolio risks, and the Operational Risk and Compliance Committee, which oversees operational, conduct and business risks.

### ***Remuneration Committee***

The Remuneration Committee determines the Group's remuneration policy on remuneration and specific compensation packages for each of the executive directors and keeps this policy under review to ensure its ongoing appropriateness and relevance. The Committee also determines the remuneration of the Chairman of the Board.

### ***Nomination Committee***

The Nomination Committee's role is to identify suitable candidates for appointment to the Board and make recommendations on appointments. Only candidates approved by the Committee may be appointed to the Board although their ultimate appointment is a matter reserved for the Board. It considers whether the size and membership of each Board committee is appropriate and recommends to the Board which directors should be appointed to which committee. It also proposes candidates for Board roles, such as committee chairmanships and the senior independent director position, for approval by the Board.

All board committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the board committees are available on request from the Company Secretary.



## Capital Structure

The Issuer has one class of ordinary share which carries no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Issuer. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Issuer.

There are no specific restrictions on the size of a member's holding or on the transfer of shares. Both of these matters are governed by the general provisions of the Issuer's Articles of Association and prevailing legislation. The Articles of Association may be amended by special resolution of the shareholders. The directors are not aware of any agreements between holders of the Issuer's shares in respect of voting rights or which might result in restrictions on the transfer of securities. Votes attaching to shares held by employee benefit trusts are not exercised at general meetings of the Issuer.

## Major Shareholders

As at 29 July 2016, the five largest shareholders of the ordinary share capital of the Issuer were:

	<b>Ordinary Shares</b>	<b>% Held</b>
M&G Investment Management .....	22,653,142	7.99
Standard Life Investments .....	19,768,588	6.97
Royal London Asset Management.....	18,349,537	6.47
Hof Hoorneman Bankiers .....	15,555,878	5.48
Shroder Investment Management.....	13,050,142	4.60

## Selected Financial Information relating to the Issuer

The following tables set out in summary form balance sheet, income statement and cash flow information relating to the Issuer. Such information is derived from the audited consolidated financial statements of the Issuer as at and for the full years ended 30 September 2015 and 30 September 2014 and the half years ended 31 March 2016 and 31 March 2015. The financial statements of the Issuer are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The 2015 and 2014 full year audited consolidated financial statements and the 31 March 2016 and 31 March 2015 half year unaudited consolidated financial statements, together with the reports of Deloitte LLP and the accompanying notes, are incorporated by reference in this Base Prospectus. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

### *Consolidated Balance Sheets as at 31 March 2016 and 2015 and as at 30 September 2015 and 2014*

	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
<b>Assets employed</b>				
<b>Non-current assets</b>				
Intangible assets .....	87.0	7.6	7.7	7.9
Property, plant and equipment .....	36.7	22.8	22.1	22.9
Financial assets .....	11,800.3	10,300.2	10,745.8	9,969.6
	<b>11,924.0</b>	<b>10,330.6</b>	<b>10,775.6</b>	<b>10,000.4</b>
<b>Current assets</b>				
Other receivables .....	9.5	6.1	6.2	6.5
Short term investments .....	17.3	48.5	41.1	39.4
Cash and cash equivalents .....	895.3	812.6	1,056.0	848.8
	<b>922.1</b>	<b>867.2</b>	<b>1,103.3</b>	<b>894.7</b>
<b>Total assets .....</b>	<b>12,846.1</b>	<b>11,197.8</b>	<b>11,878.9</b>	<b>10,895.1</b>
<b>Financed by Equity shareholders' funds</b>				
Called-up share capital .....	309.6	308.9	309.3	307.3

	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Reserves.....	793.4	709.0	760.2	688.0
<b>Share capital and reserves</b> .....	<b>1,103.0</b>	<b>1,017.9</b>	<b>1,069.5</b>	<b>995.3</b>
Own shares .....	(138.6)	(65.4)	(100.0)	(48.2)
<b>Total equity</b> .....	<b>964.4</b>	<b>952.5</b>	<b>969.5</b>	<b>947.1</b>
<b>Current liabilities</b>				
Financial liabilities .....	809.5	101.3	339.6	54.4
Current tax liabilities.....	16.7	11.4	12.5	11.9
Other liabilities .....	63.3	36.2	43.0	40.1
	<b>889.5</b>	<b>148.9</b>	<b>395.1</b>	<b>106.4</b>
<b>Non-current liabilities</b>				
Financial liabilities .....	10,958.4	10,061.5	10,481.4	9,814.0
Retirement benefit obligations .....	24.0	26.0	21.5	17.3
Deferred tax .....	8.1	8.7	11.3	10.1
Other liabilities .....	1.7	0.2	0.1	0.2
	<b>10,992.2</b>	<b>10,096.4</b>	<b>10,514.3</b>	<b>9,841.6</b>
<b>Total liabilities</b> .....	<b>11,881.7</b>	<b>10,245.3</b>	<b>10,909.4</b>	<b>9,948.0</b>
	<b>12,846.1</b>	<b>11,197.8</b>	<b>11,878.9</b>	<b>10,895.1</b>

*Consolidated Income Statements for the six months ended 31 March 2016 and 2015 and for the years ended 30 September 2015 and 2014*

	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Interest receivable.....	203.4	164.7	341.0	302.4
Interest payable and similar charges .....	(93.6)	(67.5)	(143.6)	(123.0)
<b>Net interest income</b> .....	<b>109.8</b>	<b>97.2</b>	<b>197.4</b>	<b>179.4</b>
Other operating income .....	12.5	6.8	14.1	18.5
<b>Total operating income</b> .....	<b>122.3</b>	<b>104.0</b>	<b>211.5</b>	<b>197.9</b>
Operating expenses.....	(49.4)	(36.6)	(71.2)	(63.4)
Provisions for losses .....	(3.5)	(3.5)	(5.6)	(12.3)
<b>Operating profit before fair value items</b> .....	<b>69.4</b>	<b>63.9</b>	<b>134.7</b>	<b>122.2</b>
Fair value net gains.....	0.1	(1.3)	(0.5)	0.6
<b>Operating profit being profit on ordinary activities before taxation</b> .....	<b>69.5</b>	<b>62.6</b>	<b>134.2</b>	<b>122.8</b>
Tax charge on profit on ordinary activities .....	(13.6)	(12.8)	(27.1)	(25.6)
<b>Profit on ordinary activities after taxation</b> .....	<b>55.9</b>	<b>49.8</b>	<b>107.1</b>	<b>97.2</b>
Dividend – Rate per share for the period .....	4.3p	3.6p	11.0p	9.0p
Basic earnings per share .....	19.1p	16.3p	35.5p	31.9p
Diluted earnings per share .....	18.8p	16.0p	34.8p	31.1p

*Consolidated Cash Flow Statement for the six months ended 31 March 2016 and 2015 and for the years ended 30 September 2015 and 2014*

	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Net cash (utilised) / generated by operating activities .....	243.1	(47.5)	(25.9)	(269.5)
Net cash (utilised) / generated by investing activities.....	(285.9)	(10.2)	(3.6)	(65.2)
Net cash (utilised) / generated by financing activities .....	(118.2)	22.4	237.1	596.5
Net increase / (decrease) in cash and cash equivalents.....	(161.0)	(35.3)	207.6	261.8
Opening cash and cash equivalents.....	1,055.3	847.7	847.7	585.9
<b>Closing cash and cash equivalents</b> .....	<b>894.3</b>	<b>812.4</b>	<b>1055.3</b>	<b>847.7</b>

	<b>31 March 2016</b>	<b>31 March 2015</b>	<b>30 Sept 2015</b>	<b>30 Sept 2014</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Represented by balances within:				
Cash and cash equivalents .....	895.3	812.6	1056.0	848.8
Financial liabilities .....	(1.0)	(0.2)	(0.7)	(1.1)
	<b>894.3</b>	<b>812.4</b>	<b>1055.3</b>	<b>847.7</b>

## TAXATION

### UNITED KINGDOM TAXATION CONSIDERATIONS

*The following is a summary of certain United Kingdom stamp duty and stamp duty reserve tax considerations and the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. Save where expressly stated to the contrary, it is based on current law and the published practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and who hold the Notes as investments. Certain classes of persons such as dealers, certain professional investors or persons connected with the Issuer may be subject to special rules not covered by this summary. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that might be relevant to a prospective purchaser. Holders who are in any doubt as to their tax position should consult their professional advisers. Holders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

*Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

#### UK Withholding Tax

##### *Quoted Eurobonds*

Notes which carry a right to interest ("**UK Notes**") will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the UK Notes are and continue to be quoted Eurobonds, payments of interest on the UK Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The London Stock Exchange is a recognised stock exchange, and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the Regulated Market of that Exchange.

##### *The Taxation of Regulatory Capital Securities Regulations 2013 (the "**2013 Regulations**")*

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax if the Notes each constitute a "regulatory capital security" for the purposes of the 2013 Regulations and there are no arrangements, the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the 2013 Regulations in respect of the Notes.

The Notes each constitute a "regulatory capital security" for the purposes of the 2013 Regulations **provided that** the Notes qualify, or have qualified, as Tier 2 instruments under Article 63 of the Commission Regulation (EU) No. 575/2013 and form, or formed, a component of Tier 2 capital for the purposes of Commission Regulation (EU) No 575/2013.

If the exemptions above do not apply, interest on the Notes that has a United Kingdom source may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply under United Kingdom law.

### **Other considerations**

Where interest has been paid under deduction of United Kingdom income tax, Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "**interest**" above mean "**interest**" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

### **Stamp duty and stamp duty reserve tax**

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise on the issue or transfer of the Notes **provided that** the Notes each constitute a "regulatory capital security" for the purposes of the 2013 Regulations (see above) and there are no arrangements, the main purpose, or one of the main purposes, of which is to obtain a tax advantage as a result of the application of the 2013 Regulations in respect of the Notes.

## **OTHER TAX CONSIDERATIONS**

### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

### **U.S. Foreign Account Tax Compliance Withholding**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold

under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. However, if additional notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

Merrill Lynch International and UBS Limited (the "**Joint Lead Managers**") have, in a subscription agreement dated 7 September 2016 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 100.00 per cent. of their principal amount. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### **United States of America**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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

### **United Kingdom**

Each Joint Lead Manager has further represented, warranted and undertaken 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 Notes in circumstances in which Section 21(1) of the FSMA does not 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 Notes in, from or otherwise involving the United Kingdom.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended (the "**FIEA**")). Accordingly, each Joint Lead Manager represents and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell the Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

### **General**

Each Joint Lead Manager has represented, warranted and agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each country or

jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.



## GENERAL INFORMATION

### Authorisation

1. The creation and issue of the Notes has been duly authorised by a resolution of the board of directors of the Issuer passed on 18 May 2016 and a resolution of a committee of directors of the Issuer dated 5 September 2016.

### Listing and Trading

2. Applications have been made for the Notes to be admitted to listing on the Official List and to trading on the regulated market of the London Stock Exchange. The total expenses related to the admission to trading are expected to be £4,200.

### Legal and Arbitration Proceedings

3. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position, operations or profitability of the Issuer and/or the Group.

### Significant/Material Change

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

### Auditors

5. The consolidated financial statements of the Issuer have been audited without qualification for the years ended 30 September 2015 and 30 September 2014 by Deloitte LLP, Four Brindley Place, Birmingham B1 2HZ, United Kingdom, chartered accountants.

At the Annual General Meeting of the Issuer on 11 February 2016 a resolution was put to shareholders to appoint KPMG LLP as the auditors for the Issuer, this resolution was approved. KPMG LLP, One Snowhill, Snow Hill Queensway, Birmingham B4 6GH, United Kingdom has also been appointed as the auditors to all the companies in the Group for the year ended 30 September 2016. The appointment of KPMG LLP followed a formal tender process and was in the ordinary course of business.

### Joint Lead Managers Transacting with the Issuer

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

### **Documents on Display**

7. Physical copies of the following documents may be inspected during normal business hours at the registered office of the Issuer at 51 Homer Road, Solihull, West Midlands B91 3QJ, United Kingdom for so long as the Notes remain outstanding:
  - (a) the constitutive documents of the Issuer;
  - (b) the unaudited consolidated financial statements of the Issuer for the 6 month period ended 31 March 2016 and the audited consolidated financial statements of the Issuer for the years ended 30 September 2015 and 30 September 2014;
  - (c) the Trust Deed and the Agency Agreement; and
  - (d) this Prospectus.

### **Yield**

8. On the basis of the issue price of the Notes of 100.00 per cent. of their principal amount, the gross yield of the Notes to the Reset Date is 7.381 per cent. on an annual basis. This figure is calculated on the basis of the issue price and as at the date of this Prospectus, and is not an indication of future yield.

### **Third Party Information**

9. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where it is used.

### **Clearing**

10. The Notes have been accepted for clearance through the Clearing Systems. The ISIN is XS1482136154 and the common code is 148213615.
11. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

**REGISTERED  
OFFICE OF THE ISSUER**

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United Kingdom

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AND TRANSFER AGENT**

**REGISTRAR**

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**Citibank N.A., London Branch**  
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United Kingdom

**TRUSTEE**

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London E14 5LP

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*To the Joint Lead Managers and the Trustee as to  
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