

## IMPORTANT NOTICE

To whom this may concern,

### **£150,000,000 Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the “Notes”) issued by Paragon Banking Group PLC (the “Issuer”)**

The Issuer has undertaken an offering (the “Offer”) of the Notes on the terms set out in an offering circular dated 3 February 2026 (the “Offering Circular”) which is being sent to you with this letter. This letter contains important information relating to restrictions with respect to the offer and sale of the Notes.

### **Restrictions on marketing and sales of the Notes to retail investors**

1. The Notes discussed in the Offering Circular are complex financial instruments. They are not a suitable or appropriate investment for all investors, especially retail investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes. Potential investors in the Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein).
2. In the United Kingdom (“UK”), the UK Financial Conduct Authority (“FCA”) Conduct of Business Sourcebook (“COBS”) requires, in summary, that the Notes should not be offered or sold to retail clients (as defined in COBS 3.4 and each a “retail client”) in the UK.

Barclays Bank PLC, Merrill Lynch International and UBS AG London Branch (the “**Joint Lead Managers**”) are required to comply with COBS.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the Joint Lead Managers you represent, warrant, agree with and undertake to the Issuer and the Joint Lead Managers that:

- (i) you are not a retail client in the UK; and
- (ii) you will not sell or offer the Notes (or any beneficial interest therein) to retail clients in the UK or communicate (including the distribution of the Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK.

In selling or offering the Notes or making or approving communications relating to the Notes you may not rely on the limited exemptions set out in COBS.

3. The obligations in paragraph 2 above are in addition to the need to comply at all times with all other applicable laws, regulations and regulatory guidance (whether inside or outside the European Economic Area (“EEA”) or the UK) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), whether or not specifically mentioned in the Offering Circular, including (without limitation) any requirements under the Markets in Financial Instruments Directive 2014/65/EU (as amended) (“EU MiFID II”), Regulation (EU) No 600/2014 as it forms part of UK domestic law (“UK MiFIR”), the UK FCA Handbook and/or any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) for investors in any relevant jurisdiction.

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

You acknowledge that each of the Issuer and the Joint Lead Managers will rely upon the truth and accuracy of the representations, warranties, agreements and undertakings set forth herein and are entitled to rely upon this letter and are irrevocably authorised to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby. This letter is additional to, and shall not replace, the obligations set out in any pre-existing general engagement terms entered into between you and the Joint Lead Managers relating to the matters set out herein.

Capitalised but undefined terms used in this letter shall have the meaning given to them in the Offering Circular.

This document is not an offer to sell or an invitation to buy any Notes.

Your offer or agreement to buy any Notes will constitute your acceptance of the terms of this letter and your confirmation that the representations and warranties made by you pursuant to this letter are accurate.

This letter and any non-contractual obligations arising out of or in connection with it are governed by English law. The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this letter (including a dispute relating to the existence or validity of this letter or any non-contractual obligations arising out of or in connection with this letter) or the consequences of its nullity.

Should you require any further information, please do contact us.

Yours faithfully

**Barclays Bank PLC, Merrill Lynch International and UBS AG London Branch**

cc: Paragon Banking Group PLC

## OFFERING CIRCULAR DATED 3 FEBRUARY 2026



### PARAGON BANKING GROUP PLC

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

£150,000,000

## 7.500 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes

The issue price of the £150,000,000 7.500 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the "Notes") of Paragon Banking Group PLC (the "Issuer") is 100.000 per cent. of their principal amount.

From (and including) 5 February 2026 (the "Issue Date") to (but excluding) 5 August 2033 (the "First Reset Date"), the Notes bear interest at the rate of 7.500 per cent. per annum. From (and including) each Reset Date to (but excluding) the next following Reset Date, the Notes will bear interest at a rate which is the aggregate of the margin of 3.198 per cent. per annum and the relevant Reset Reference Rate in respect of the relevant Reset Period, with such sum, if necessary, converted by the Agent Bank to a semi-annual rate in accordance with market convention as instructed by the Issuer (rounded to three decimal places, with 0.0005 rounded down), as provided in Condition 5(d) (*Interest – Reset Interest Rate*). **The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applied immediately prior to such Reset Date.** Subject to the conditions set out herein, interest, if any, shall be payable semi-annually in arrear on 5 February and 5 August of each year (each an "Interest Payment Date") with the first interest payment payable on 5 August 2026. Payments on the Notes shall be made in pounds sterling without deduction for or on account of taxes imposed or levied by the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, except in the circumstances described under Condition 10 (*Taxation*).

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

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

The rights and claims of the Holders in respect of or arising from the Notes will be subordinated to the claims of Senior Creditors.

Subject to certain conditions set out in Condition 7 (*Redemption and Purchase; Substitution and Variation*), the Notes may be redeemed at the option of the Issuer in whole but not in part at their principal amount together with any Accrued Interest (as defined herein) on (i) any date from (and including) 5 February 2033 to (and including) the First Reset Date or (ii) any date from (and including) the date falling six months prior to any subsequent Reset Date to (and including) such Reset Date. In addition, and subject to certain conditions set out in Condition 7 (*Redemption and Purchase; Substitution and Variation*), the Notes may be redeemed, substituted or varied at any time upon the occurrence of certain tax events due to changes to law or if as a result of any amendment to, or change in, the regulatory classification of the Notes the whole or any part of the principal amount of the Notes is, or is likely to be at any time, excluded from, or cease to count towards, the Regulatory Group's Tier 1 Capital (as defined herein) or at any time if the outstanding aggregate principal amount of the Notes is equal to or less than the Clean-up Call Threshold, all as more particularly provided in Condition 7 (*Redemption and Purchase; Substitution and Variation*).

**If a Trigger Event (as defined herein) occurs at any time, then an Automatic Conversion (as defined herein) will occur on the Conversion Date (as defined herein), at which point all of the Issuer's obligations under the Notes shall be irrevocably and automatically released by the Holders in consideration of the Issuer's issuance of the Conversion Shares (as defined herein) to the Conversion Shares Depository (as defined herein) (or other relevant recipient as set out herein) on the Conversion Date at the Conversion Price (as defined herein). Under no circumstances shall such released obligations be reinstated. The Conversion Shares shall initially be registered in the name of the Conversion Shares Depository (which shall hold the Conversion Shares on behalf of the Holders) or the relevant recipient in accordance with the terms of the Notes. The Issuer may elect, in its sole and absolute discretion, that a Conversion Shares Offer (as defined herein) be made by the Conversion Shares Depository to all or some of the Issuer's ordinary shareholders at such time. The realisable value of any Conversion Shares received by a Holder following an Automatic Conversion may be significantly less than the Conversion Price of £6.19 initially, and Holders could lose all or part of their investment in the Notes as a result of the Automatic Conversion.**

Application has been made for the Notes to be admitted to trading on the International Securities Market (the "ISM") of the London Stock Exchange plc (the "LSE") on or about the Issue Date. The Notes are a new issue of securities and have no established trading market. There can be no assurance that an active trading market in the Notes will develop, and any trading market that does develop may not be liquid. The ISM is not a regulated market for the purposes of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA") ("UK MiFIR").

The ISM is a market designated for qualified investors (as prescribed in Regulation 16 of the Public Offers and Admissions to Trading Regulations 2024 (the "POATRs"). The LSE, as a Recognised Investment Exchange does not make assessments of investor eligibility. Given that under Regulation 16 of the POATRs, only qualified investors are permitted to trade on the ISM and no qualified investor is permitted to trade on behalf of persons who are not themselves qualified investors, financial intermediaries acting for investors are responsible for ensuring that only investors who are qualified investors as prescribed by Regulation 16 of the POATRs are permitted to trade on the ISM. Securities admitted to trading on the ISM are not admitted to the Official List of the Financial Conduct Authority (the "FCA"). The LSE has not approved or verified the contents of this Offering Circular. This Offering Circular does not comprise a prospectus for the purposes of the Prospectus Rules: Admission to Trading on a Regulated Market sourcebook. This Offering Circular comprises admission particulars in accordance with the ISM Rulebook.

Pursuant to the FCA Conduct of Business Sourcebook ("COBS"), the Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients (as defined in COBS 3.4) in the UK or to any retail investors in the UK or the European Economic Area ("EEA"). No key information document (KID) required by Regulation (EU) 1286/2014 or that Regulation as it forms part of UK domestic law has been or will be prepared in respect of the Notes, as the Notes are not available to retail investors in the EEA or the UK. Prospective investors are referred to the section headed "*Prohibition on marketing and sales to retail investors*", "*Prohibition of sales to EEA retail investors*" and "*Prohibition of sales to UK retail investors*" on pages 4 to 5 of this Offering Circular for further information.

The Notes and the Conversion Shares into which they may convert have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

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

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

The Notes are expected to be rated Ba2 by Moody's Investors Service Ltd ("Moody's") and BB by Fitch Ratings Limited ("Fitch"), each of which is a credit rating agency established in the United Kingdom and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "UK CRA Regulation"). Each of Fitch and Moody's are included in the list of credit rating agencies published by the FCA on its website in accordance with the UK CRA Regulation. The ratings issued by Fitch and Moody's have been endorsed by Fitch Ratings Ireland Limited and Moody's Deutschland GmbH respectively in accordance with Regulation (EC) 1060/2009 (as amended) (the "EU CRA Regulation"). Each of Moody's Deutschland GmbH and Fitch Ratings Ireland Limited is established in the European Union and registered under the EU CRA Regulation. As such, each of Moody's Deutschland GmbH and Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the EU CRA Regulation.

Joint Lead Managers

Barclays

BofA Securities

UBS Investment Bank

## TABLE OF CONTENTS

	<b>Page</b>
IMPORTANT NOTICES .....	3
IMPORTANT INFORMATION – FORWARD-LOOKING STATEMENTS .....	8
INFORMATION INCORPORATED BY REFERENCE .....	9
OVERVIEW .....	10
RISK FACTORS .....	22
TERMS AND CONDITIONS OF THE NOTES .....	63
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM.....	114
USE OF PROCEEDS .....	118
BUSINESS DESCRIPTION .....	119
REGULATORY DEVELOPMENTS .....	128
DESCRIPTION OF THE ORDINARY SHARES .....	142
TAXATION .....	146
SUBSCRIPTION AND SALE .....	149
GENERAL INFORMATION .....	153

## IMPORTANT NOTICES

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

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

The Joint Lead Managers and the Trustee have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or the Trustee or any of their respective affiliates as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection thereto. None of the Joint Lead Managers, the Trustee or any of their respective affiliates accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection thereto. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under this Offering Circular.

To the fullest extent permitted by law, neither the Joint Lead Managers nor the Trustee nor any of their respective affiliates accepts any responsibility for the contents of this Offering Circular, or for any other statement made, or purported to be made, by the Joint Lead Managers or the Trustee or any of their respective affiliates or on their behalf in connection with the Issuer or the issue and offering of the Notes. The Joint Lead Managers, the Trustee and their respective affiliates disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Issuer, the Joint Lead Managers or the Trustee to give any information or make any representation regarding the Issuer or the Notes. Any such representation or information should not be relied upon as having been authorised by the Issuer.

Neither the delivery of this Offering Circular 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 Offering Circular.

Neither this Offering Circular nor any other information supplied in connection with this Offering Circular or the Notes (a) is intended to provide the basis of any credit or other evaluation and (b) should be considered as a recommendation (or a statement of opinion) by the Issuer or the Joint Lead Managers that any recipient of this Offering Circular or any other information supplied in connection with this Offering Circular or the Notes should purchase the Notes. Each investor contemplating purchasing the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. None of the Issuer, the Joint Lead Managers, the Trustee nor any of their respective affiliates represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution

or offering. In particular, no action has been taken by the Issuer, the Joint Lead Managers or the Trustee which is intended to permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this Offering Circular or the Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of the Notes. For a description of certain restrictions on offers and sales of the Notes and on distribution of this Offering Circular, see “*Subscription and Sale*”.

The Notes and the Conversion Shares into which they may convert have not been and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

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

The Notes form part of the regulatory capital of the Issuer. Banks and their holding companies 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 (the “**Banking Act**”) (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.

### **Prohibition on marketing and sales to retail investors**

1. The Notes are complex financial instruments. They are not a suitable or appropriate investment for all investors, especially retail investors. In some jurisdictions (including the United Kingdom), regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes. Potential investors in the Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein).
2. In the UK, COBS requires, in summary, that the Notes should not be offered or sold to retail clients (as defined in COBS 3.4 and each a “retail client”) in the UK.

The Joint Lead Managers are required to comply with COBS.

By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or the Joint Lead Managers each prospective investor represents, warrants, agrees with and undertakes to the Issuer and the Joint Lead Managers that:

- (i) it is not a retail client in the UK; and
- (ii) it will not sell or offer the Notes (or any beneficial interest therein) to retail clients in the UK or communicate (including the distribution of this Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK.

In selling or offering the Notes or making or approving communications relating to the Notes it may not rely on the limited exemptions set out in COBS.

3. The obligations in paragraph 2 above are in addition to the need to comply at all times with all other applicable laws, regulations and regulatory guidance (whether inside or outside the European Economic Area (“EEA”) or the UK) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), whether or not specifically mentioned in this Offering Circular, including (without limitation) any requirements under the Markets in Financial Instruments Directive 2014/65/EU (as amended) (“EU MiFID II”) or the UK FCA Handbook as to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) for investors in any relevant jurisdiction.
4. Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**EU PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“UK”). For these purposes, a retail investor means a person who is neither: (i) a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (ii) a qualified investor as defined in paragraph 15 of Schedule 1 to the POATRs. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law of the UK by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**UK MiFIR product governance / Professional investors and ECPs only target market** – Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the COBS, and professional clients, as defined in UK MiFIR; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer’s target assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

## **Non-IAS UK Financial Measures**

The Issuer presents certain key performance measures that are not defined under UK adopted international accounting standards (“**IAS UK**”) but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks and building societies generally. These measures include certain of the figures and ratios set out in the section entitled “*Financial and operating highlights*” on pages 4 and 5 and the appendices set out on pages 348 to 351 of the 2025 Audited Financial Statements (as defined herein) which are incorporated by reference herein. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but these regulations often provide the Issuer with certain discretion in making its calculations.

Because of the discretion that the Issuer and other banks or building societies have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banking groups. These measures should not be used as a substitute for evaluating the performance of the Issuer or the Group (as defined herein in the section titled “*Overview*”) based on its audited balance sheet and results of operations.

## **The Notes are complex financial instruments**

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular;
- (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) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the potential investor’s currency is not pounds sterling;
- (iv) understand thoroughly the terms of the Notes, such as the provisions governing an Automatic Conversion (including, in particular, the circumstances under which a Trigger Event may occur) and the situations in which interest payments may or shall be cancelled and be familiar with the resolution regime applicable to the Regulatory Group (as defined herein), including the possibility that the Notes may become subject to write-down or conversion if the resolution powers are exercised;

- (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; and
- (vi) understand the accounting, legal, regulatory and tax implications of a purchase, and the holding and disposal of an interest in the Notes or any Conversion Shares.

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) the Notes are legal investments for it; (ii) the 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 Offering Circular or incorporated by reference herein.

Certain figures included in this Offering Circular 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.

### **Stabilisation**

In connection with the issue of the Notes, Barclays Bank PLC (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 market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the 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 relevant Stabilisation Manager (or person(s) acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

## IMPORTANT INFORMATION – FORWARD-LOOKING STATEMENTS

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

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

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

Except as required by the Prudential Regulation Authority (the "**PRA**"), the FCA, the London Stock Exchange or applicable law, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward looking statements in this Offering Circular that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of it.

## INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with the following information:

- the audited consolidated annual financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 30 September 2025 (set out on pages 206 to 345 of the 2025 annual report of the Issuer), the appendices set out on pages 348 to 351, the Financial and operating highlights set out on pages 4 to 5 and the strategic report set out on pages 8 to 93 of the 2025 annual report of the Issuer (the “**2025 Audited Financial Statements**”) available at [paragonbankinggroup.co.uk/resources/paragon-group/documents/reports-presentations/2025/2025-annual-report-full](https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/reports-presentations/2025/2025-annual-report-full);
- the audited consolidated annual financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 30 September 2024 (set out on pages 190 to 335 of the 2024 annual report of the Issuer), the appendices set out on pages 338 to 341 and the strategic report set out on pages 8 to 87 of the 2024 annual report of the Issuer (the “**2024 Audited Financial Statements**”) available at <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/reports-presentations/2024/2024-annual-report-full>;
- the Pillar III Disclosures of the Issuer for the financial year ended 30 September 2025 available at <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/reports-presentations/2025/2025-pillar-iii> (the “**2025 Pillar III Disclosures**”); and
- the unaudited published Trading Update for the Issuer for the three months ended 31 December 2025 (with the exception of the “Guidance and outlook” section on page 2) available at <https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/reports-presentations/2026/2026-q1-trading-update> (the “**Quarter 1 Trading Update**”).

Such information shall be incorporated in, and form part of, this Offering Circular, save that any statement contained in the information which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular 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 Offering Circular.

Copies of the documents listed above may be obtained (without charge) during usual business hours at the registered office of the Issuer and will also be available to view (free of charge) on the website of the Issuer (<https://www.paragonbankinggroup.co.uk/>).

Those parts of the documents specified above which are not specifically incorporated by reference in this Offering Circular should not form part of this Offering Circular and are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Offering Circular.

## OVERVIEW

*This overview must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular 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 Offering Circular. Words and expressions defined in the Conditions or elsewhere in this Offering Circular have the same meanings in this overview.*

*In this Offering Circular, the “**Group**” refers to the Issuer and its subsidiaries and its subsidiary undertakings from time to time.*

*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 22 of this Offering Circular.*

<b>Issuer</b>	Paragon Banking Group PLC
<b>Joint Lead Managers</b>	Barclays Bank PLC, Merrill Lynch International and UBS AG London Branch
<b>Trustee</b>	Citicorp Trustee Company Limited
<b>Registrar and Transfer Agent</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 7.500 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes
<b>Issue Price</b>	100 per cent. of the principal amount of the Notes
<b>Issue Date</b>	5 February 2026
<b>Use of Proceeds</b>	<p>The proceeds of the issue of the Notes will be on-lent to Paragon Bank (as defined herein) by way of the Issuer purchasing an equivalent principal amount of additional tier 1 securities to be issued by Paragon Bank for its own capital purposes.</p> <p>The gross proceeds of the issue of the Notes will be used for the general corporate purposes of the Group.</p>
<b>Status of the Notes</b>	<p>The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, ranking <i>pari passu</i> and without any preference among themselves. In the event of a Winding Up or an Administration, the rights and claims of the Holders in respect of or arising from the Notes (including any damages awarded for breach of obligations in respect thereof (if payable)) will be subordinated to the claims of Senior Creditors as described in Condition 4 (<i>Subordination</i>).</p> <p>Pursuant to the Insolvency Act, the Notes will constitute tertiary non-preferential debts of the Issuer and therefore both ordinary non-preferential debts and secondary non-preferential debts will rank in priority to the Notes. The terms “ordinary non-preferential debt”, “secondary-non preferential debt” and</p>

“tertiary non-preferential debt” shall have the meanings given to each of them in the Insolvency Act.

### **Solvency Condition**

Except in a Winding Up or an Administration and subject to the right or obligation of the Issuer to cancel payments under the Conditions and the provisions on Automatic Conversion, all payments in respect of or arising from (including any damages awarded for breach of any obligation under) the Notes will be conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Notes (and any such payments will be deemed cancelled) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

The Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Balance Sheet Condition is met at that time.

The “**Balance Sheet Condition**” shall be satisfied in relation to the Issuer if the value of its assets is at least equal to the value of its liabilities (taking into account its contingent and prospective liabilities), calculated in each case on an unconsolidated basis and according to the criteria that would be applied by the High Court of Justice of England and Wales (or the relevant authority of such other jurisdiction in which the Issuer may be organised) in determining whether the Issuer is “unable to pay its debts” under section 123(2) of the Insolvency Act or any amendment or re-enactment thereof (or in accordance with the corresponding provisions of the applicable laws of such other jurisdiction in which the Issuer may be organised).

### **Ranking on a Winding Up or an Administration**

If a Winding Up or an Administration of the Issuer occurs prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in the Conditions), such amount, if any, as would have been payable to the Holder of such Note if, on the day prior to the commencement of the Winding Up or Administration and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) ranking *pari passu* as to a return of assets on a Winding Up or an Administration with the holders of the most senior class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding Up or Administration over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that such Holder was entitled to receive in respect of each Notional Preference Share on a return of assets

in such Winding Up or Administration an amount equal to the principal amount of the relevant Note and any Accrued Interest (provided not otherwise cancelled in accordance with the Conditions) and any damages awarded for breach of any obligations in respect of such Note, whether or not the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable (and, in the case of an Administration, on the assumption that such preference shareholders were entitled to claim and recover in respect of their preference shares to the same degree as in a Winding Up).

If a Winding Up or an Administration occurs on or after the date on which a Trigger Event occurs but before the Conversion Date, then for the purposes of determining the claim of a Holder in such Winding Up or Administration, the Conversion Date in respect of an Automatic Conversion shall be deemed to have occurred immediately before the occurrence of such Winding Up or Administration and, accordingly, as if such Holder were, throughout such Winding Up or Administration, the holder of such number of the Issuer's ordinary shares as it would have been entitled to receive upon Automatic Conversion (ignoring for this purpose the Issuer's right to make an election for a Conversion Shares Offer to be effected pursuant to the Conditions, whether or not the Solvency Condition is satisfied on such date (and, in the case of an Administration, on the assumption that shareholders were entitled to claim and recover in respect of their ordinary shares to the same degree as in a winding up or liquidation)).

**“Senior Creditors”** means creditors of the Issuer: (a) who are unsubordinated creditors of the Issuer; (b) whose claims are, or are expressed to be, subordinated (whether only in the event of a winding-up of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer but not further or otherwise; (c) who are creditors in respect of any secondary non-preferential debts; or (d) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Holders in a winding-up occurring prior to a Trigger Event (and, for the avoidance of doubt, Senior Creditors shall include the holders of Tier 2 Capital instruments).

**No set-off**

Subject to applicable law, no Holder may exercise or claim or plead any right of set-off, compensation, counterclaim, retention or netting in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes or the Trust Deed and each Holder will, by virtue of their holding of any Note (or any beneficial interest therein), be deemed, to the fullest extent permitted by applicable law, to have waived all

such rights of set-off, compensation, counterclaim, retention or netting.

### **Interest**

The Notes shall bear interest on their outstanding principal amount from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 7.500 per cent. per annum. From (and including) each Reset Date to (but excluding) the next following Reset Date, the Notes will bear interest at a rate which is the aggregate of the margin of 3.198 per cent. and the relevant Reset Reference Rate in respect of the relevant Reset Period, with such sum, if necessary, converted by the Agent Bank to a semi-annual rate in accordance with market convention as instructed by the Issuer (rounded to three decimal places, with 0.0005 rounded down), as determined by the Agent Bank on the date falling two Business Days prior to the Reset Date on which such Reset Period commences. Subject to the Conditions, interest, if any, shall be payable semi-annually in arrear on 5 February and 5 August of each year with the first interest payment payable on 5 August 2026.

### **Discretionary cancellation of interest**

The Issuer may at any time and for any reason elect at its full and absolute discretion to cancel (in whole or in part) the Interest Amount that would otherwise be payable on any Interest Payment Date. See “*Non-payment of interest sufficient evidence of cancellation*”, “*Notice of interest cancellation*” and “*Effect of interest cancellation*” below.

### **Mandatory cancellation of interest**

The Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that:

- (a) such Interest Amount (or part thereof), when aggregated together with (i) all distributions or interest payments which have been made or declared by the Issuer since the end of the last financial year or which are required to be paid or made during the then current financial year on or in respect of any Parity Securities, the Notes and any Junior Securities and (ii) all distributions or interest payments payable by the Issuer (and not cancelled) on such Interest Payment Date (x) on the Notes and (y) on or in respect of any Parity Securities or any Junior Securities (without double counting and excluding any such distributions or interest payments which have already been provided for, by way of deduction, in calculating the amount of Distributable Items), exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date;
- (b) to the extent required under the then prevailing Capital Regulations, such Interest Amount (or part thereof) would cause, when aggregated together with other distributions of the kind referred to in Rule 4.3(2) of chapter 4 of the

“CRR Firms – Capital Buffers” part of the PRA Rulebook (“Chapter 4”) (or any succeeding or analogous rules amending or replacing such rule), the Maximum Distributable Amount (if any) then applicable to the Regulatory Group to be exceeded.

“**Maximum Distributable Amount**” means any applicable maximum distributable amount relating to the Regulatory Group required to be calculated in accordance with Chapter 4 (or any succeeding or analogous Capital Regulations amending or replacing such chapter) or in accordance with any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Regulatory Group is failing to meet any applicable requirement or any buffers relating to such requirement;

- (c) the PRA orders the Issuer to cancel such payment; or
- (d) the Solvency Condition is not satisfied on the relevant Interest Payment Date.

See also the risk factor entitled “*The Capital Regulations impose capital and regulatory requirements that will restrict the Issuer’s ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*”.

**Non-payment of interest sufficient evidence of cancellation**

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

**Notice of interest cancellation**

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

**Effect of interest cancellation**

The non-payment or cancellation of any Interest Amount (or any part thereof) in accordance with the Conditions shall not constitute a default for any purpose on the part of the Issuer. For the avoidance of doubt, interest payments are non-cumulative and Holders shall have no right to any cancelled (or unpaid) Interest Amount or to receive any additional interest or compensation as a result of such cancellation or non-payment,

whether under the Notes or the Trust Deed, on a Winding Up, Administration or otherwise. The Issuer may use such cancelled payments without restriction to meet its obligations as they fall due and the cancellation of any Interest Amount (or part thereof) will not impose any restrictions on the Issuer nor prevent or restrict the Issuer from declaring or making any distributions or interest payments on any of its shares or other instruments or obligations.

**Perpetual Notes**

The Notes will be perpetual notes and have no fixed maturity or fixed redemption date, and the Holders will have no right to require the Issuer to redeem or purchase the Notes at any time.

**Optional Redemption**

Subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), the Notes may be redeemed at the option of the Issuer on (i) any date from (and including) 5 February 2033 to (and including) the First Reset Date or (ii) any date from (and including) the date falling six months prior to any subsequent Reset Date to (and including) such Reset Date, in each case, in whole but not in part, at an amount equal to their principal amount together with any Accrued Interest.

**Tax Redemption**

Subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), if at any time a Tax Event occurs, the Issuer may redeem the Notes in whole, but not in part, at any time at an amount equal to their principal amount, together with any Accrued Interest, as more fully provided in Condition 7 (*Redemption and Purchase; Substitution and Variation*).

**Capital Disqualification Event Redemption**

Subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), if at any time a Capital Disqualification Event occurs, the Issuer may redeem the Notes in whole, but not in part, at an amount equal to their principal amount together with any Accrued Interest, as more fully provided in Condition 7 (*Redemption and Purchase; Substitution and Variation*).

**Clean-up Call**

Subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), if at any time the outstanding aggregate principal amount of the Notes is equal to or less than the Clean-up Call Threshold, the Issuer may redeem the Notes in whole, but not in part, at an amount equal to their principal amount together with any Accrued Interest, as more fully provided in Condition 7 (*Redemption and Purchase; Substitution and Variation*).

**Notice of Redemption**

Any redemption of the Notes shall be subject to the Issuer providing not less than 15 days' nor more than 30 days' prior notice to the Holders, the Trustee and the Agents (which notice shall, except in the limited circumstances described in the following paragraph, be irrevocable). The Issuer shall not be

entitled to deliver a notice of redemption after an Automatic Conversion Notice has been delivered.

**Purchases**

The Issuer or any of its Subsidiaries may, at its option but subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), 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 Capital Regulations.

**Substitution and Variation**

If at any time a Capital Disqualification Event or a Tax Event occurs, the Issuer may, subject to Condition 7(h) (*Redemption and Purchase; Substitution and Variation – Conditions to redemption, purchase, substitution and variation*) and having given not less than 15 nor more than 30 days' notice to the Trustee, the Agents and the Holders, but without any requirement for the consent or approval of the Holders, at any time either substitute all (but not some only) of the Notes for, or vary the terms of the Notes and/or the terms of the Trust Deed so that they remain or, as appropriate, become, Qualifying Additional Tier 1 Notes, as more fully provided in Condition 7 (*Redemption and Purchase; Substitution and Variation*).

**Conditions to redemption, purchase, substitution and variation**

Any redemption, purchase, substitution or variation under Condition 7 (*Redemption and Purchase; Substitution and Variation*) is subject to the Issuer obtaining PRA Permission (and such PRA Permission not having been revoked by the relevant date of such redemption, purchase, substitution or variation, as the case may be) and to compliance with the Regulatory Preconditions and/or any other additional and/or alternative conditions or requirements contained in the then prevailing Capital Regulations which relate to the redemption, purchase, substitution or variation of the Notes, as the case may be.

If the Issuer has elected to redeem, purchase, substitute or vary the Notes and (i) prior to the redemption, purchase, substitution or variation (as applicable) a Trigger Event occurs; or (ii) in the case of a redemption or purchase, the Solvency Condition is not satisfied in respect of the relevant payment on any date fixed for redemption or purchase, the relevant redemption, substitution or variation notice (as applicable) or, as the case may be, the relevant purchase agreement, shall be automatically rescinded and shall be of no force and effect and no payment of any redemption amount or purchase price will be due and payable or no substitution or variation shall occur (as the case may be).

In the case of (i), the Automatic Conversion shall occur as described below under "*Automatic Conversion on a Trigger Event*". In the case of (ii), the Issuer shall give notice thereof to the Holders, the Trustee and the Agents as soon as practicable. Any delay in giving, or failure to provide, such notice shall not

have any impact on the effectiveness of, or otherwise invalidate, any such rescission.

**Trigger Event**

A “**Trigger Event**” shall occur if the Common Equity Tier 1 Capital Ratio of the Regulatory Group falls below 7.00%.

**Conversion Price**

The Conversion Price of the Notes will be £6.19 per Conversion Share, subject to adjustment in accordance with certain anti-dilution adjustments.

**Automatic Conversion on a Trigger Event**

If a Trigger Event occurs at any time, then an Automatic Conversion will occur on the Conversion Date, at which point all of the Issuer’s obligations under the Notes shall be irrevocably and automatically released by the Holders in consideration of the Issuer’s issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient in accordance with the terms of the Notes) on the Conversion Date at the Conversion Price. Under no circumstances shall such released obligations be reinstated. The Automatic Conversion shall occur without delay upon the occurrence of a Trigger Event and by no later than one month following such Trigger Event (or such shorter period as the PRA may then require).

Whether a Trigger Event has occurred shall be determined by the Issuer or the PRA or any agent appointed by the PRA for such purpose and such determination shall be binding on Holders.

The Issuer shall (unless the determination was made by the PRA) immediately notify the PRA of the occurrence of the Trigger Event and shall deliver an Automatic Conversion Notice to the Holders, the Trustee and the Agents without delay after such time.

The Notes will not be convertible into Conversion Shares at the option of the Holders at any time.

**Consequences of Automatic Conversion**

Following an Automatic Conversion, no Holder will have any rights against the Issuer with respect to the repayment of the principal amount of the Notes or the payment of interest or any other amount on or in respect of such Notes, which liabilities of the Issuer shall be irrevocably and automatically released and, accordingly, the principal amount of the Notes shall equal zero at all times thereafter. Any Interest Amount in respect of an Interest Period ending on any Interest Payment Date falling between the date of a Trigger Event and the Conversion Date shall be deemed to have been automatically and irrevocably cancelled upon the occurrence of such Trigger Event and shall not be due and payable.

Following the issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as applicable) on the Conversion Date, the Notes shall remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the Holder’s right to receive Conversion

Shares or, if the Issuer elects that a Conversion Shares Offer be made as described under “*Conversion Shares Offer*” below, Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary (or such other relevant recipient). The Issuer currently expects that beneficial interests in the Notes will be transferable until the Suspension Date and that any trades in the Notes would clear and settle through the Clearing Systems until such date. However, there is no guarantee that an active trading market will exist for the Notes following the Automatic Conversion. The Notes may cease to be admitted to listing on the ISM before or after the Suspension Date.

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

### **Conversion Shares**

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

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

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

### **Conversion Shares Offer**

No later than 10 Business Days following the Conversion Date, the Issuer may, in its sole and absolute discretion, elect that the

Conversion Shares Depositary make an offer of all or some of the Conversion Shares to all or some of the Issuer's ordinary shareholders at such time at a cash price per Conversion Share equal to the Conversion Price, subject as provided in Condition 8 (*Automatic Conversion – Conversion Share Offer*) (the “**Conversion Shares Offer**”). The Issuer may, on behalf of the Conversion Shares Depositary, appoint a Conversion Shares Offer Agent to act as placement or other agent to facilitate the Conversion Shares Offer.

The Issuer will deliver a Conversion Shares Offer Notice to the Trustee and Principal Paying Agent directly and to the Holders within 10 Business Days following the Conversion Date specifying whether or not it has elected that a Conversion Shares Offer be conducted. If so elected, the Conversion Shares Offer Period, during which the Conversion Shares Offer may be made, shall end no later than 40 Business Days after the giving by the Issuer of the Conversion Shares Offer Notice.

The Issuer reserves the right, in its sole and absolute discretion, to terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period by providing at least three Business Days' notice to the Trustee and Principal Paying Agent directly and to the Holders, and, if it does so, the Issuer may, in its sole and absolute discretion, take steps (including changing the Suspension Date) to deliver to Holders the Conversion Shares at a time that is earlier than the time at which they would have otherwise received the Conversion Shares Offer Consideration had the Conversion Shares Offer been completed. Upon completion of the Conversion Shares Offer, the Issuer or the Conversion Shares Depositary will provide notice to the Trustee and the Holders of the composition of the Conversion Shares Offer Consideration (and of the deductions to the cash component, if any, of the Conversion Shares Offer Consideration (as set out in the definition of Conversion Shares Offer Consideration)) per Calculation Amount.

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

#### **Settlement Procedures**

The Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will be delivered to Holders pursuant to Condition 8(e) (*Automatic Conversion – Settlement Procedure*).

#### **Defaults and Enforcement**

The remedies under the Notes will be 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 will be, subject to certain conditions, for the Trustee to institute proceedings for the winding-up of the Issuer in England (or such other jurisdiction in which the Issuer may be organised) (but not elsewhere) and/or to prove in any Winding Up or Administration, but may take no other action in respect of such default. The Notes will only be capable of being accelerated if a Winding Up or an Administration occurs before the occurrence of a Trigger Event. The exercise of the UK Bail-in Power with respect to the Issuer and/or the Notes shall not give rise to any acceleration rights under the Notes.

**Taxation**

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts in respect of any interest on the Notes but not, for the avoidance of doubt, in respect of the payment of any principal in respect of the Notes, as will result in receipt by the Holders 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 10 (*Taxation*).

**Substitution of the Issuer**

The Trustee may, without the consent of the Holders but subject to the Issuer having obtained PRA Permission (and such PRA Permission not having been revoked by the relevant date of such substitution) and other conditions set out in Condition 15 (*Meetings of Holders, Modification, Waivers and Substitution – Substitution of the Issuer*), agree with the Issuer the substitution in place of the Issuer (or of any previous substitute) as principal debtor under the Notes of any Subsidiary of the Issuer.

**Governing Law**

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

**Agreement with respect to the exercise of the UK Bail-in Power**

Applicable. See Condition 20 (*Recognition of UK Bail-in Power*) for further detail.

**Form and Denomination**

The Notes will be issued in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented by a Global Certificate registered in the name of a nominee for, and deposited with, the common depository for Euroclear and Clearstream, Luxembourg (together, the “**Clearing Systems**”). Individual Certificates in definitive form evidencing holdings of Notes will only be available in certain limited circumstances – see “*Summary of Provisions relating to the Notes in Global Form*”.

<b>Clearing Systems</b>	Euroclear and Clearstream, Luxembourg
<b>ISIN</b>	XS3282197865
<b>Common Code</b>	328219786
<b>Listing and Trading</b>	Application has been made for the Notes to be admitted to trading on the ISM. The Notes may cease to be admitted to trading on the ISM before or after the Suspension Date.
<b>Issuer Legal Entity Identifier (LEI)</b>	213800S1TDKIB1IUTS72
<b>Rating</b>	The Notes are expected to be rated Ba2 by Moody's and BB by Fitch, each of which is a credit rating agency established in the United Kingdom and registered under the UK CRA Regulation. Each of Fitch and Moody's is included in the list of credit rating agencies published by the FCA on its website in accordance with the UK CRA Regulation. The ratings issued by Fitch and Moody's have been endorsed by Fitch Ratings Ireland Limited and Moody's Deutschland GmbH respectively in accordance with the EU CRA Regulation. Each of Moody's Deutschland GmbH and Fitch Ratings Ireland Limited is established in the European Union and registered under the EU CRA Regulation. As such, each of Moody's Deutschland GmbH and Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the EU CRA Regulation.
<b>Selling Restrictions</b>	There are restrictions on the offer, sale and transfer of the Notes in the EEA, Canada, Italy, Singapore, Japan, the United Kingdom and the United States. See the section herein entitled " <i>Subscription and Sale</i> ".

## 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 Offering Circular, 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 Offering Circular 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 Offering Circular and their personal circumstances.*

### **(A) Risks Relating to the Group and its Business**

#### **1 Business Risks**

##### **1.1 *The Group could be materially affected by a downturn or disruption in the UK economy***

The majority of the Group’s income is derived from activities secured on residential property or assets 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.

A downturn in business conditions or in the UK economy or increased financial market volatility or economic or market disruption 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.

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

Demand for the Group’s buy-to-let 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, the supply of rental property, demographic changes and government policy including taxation.

Increases in the taxation of, or reduction in tax relief relating to, buy-to-let property investment may adversely affect the private residential rental market in the UK in general, or the ability of individual customers to meet their obligations under their mortgage loans.

Increased regulation of buy-to-let mortgages could reduce the choice of mortgage products and properties available to buy-to-let investors, which in turn could reduce demand for buy-to-let mortgages. Demand for buy-to-let mortgages is also susceptible to changes in interest rates, employment levels and other factors that determine disposable income and rental yields.

Reductions in demand for buy-to-let mortgages and also any decreases in the value of security or the ability of borrowers to meet their obligations under their buy-to-let mortgages could adversely affect the Group's cashflows, revenues and profits which could adversely impact the Issuer's ability to fulfil its obligations under the Notes.

**1.3 *As a lender, Paragon Bank and therefore 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, Paragon Bank PLC ("**Paragon Bank**"), the principal operating entity of the Group, and therefore the Group, is inherently exposed to risks arising from changes in the credit quality of customers and the recoverability of amounts due from borrowers. Defaults may occur for a variety of reasons, including credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, repossession frequency and the ultimate payment of interest and principal on loans, such as changes in the national or international economic climate, regional economic or housing conditions, changes in taxation, interest rates, inflation, the availability of financing, yields on alternative investments, natural and other disasters including epidemic outbreaks, wars, political developments and government policies, natural disasters and widespread health crises or the fear of such crises (such as coronavirus (including COVID-19), measles, SARS, Ebola, H1N1, Zika, avian influenza, swine flu, or other epidemic diseases).

The UK economy has recently experienced a range of economic shocks including high energy prices, inflation and a cost of living crisis, partly associated with COVID-19 and the ongoing conflicts in Ukraine and the Middle East, political and trade policy uncertainty and the imposition of international trade tariffs with uneven impacts. The United Kingdom has also experienced rising interest rates leading to an increase in the cost of borrowing as well as further discouraging expenditure. Increased borrowing costs could make a borrower's mortgage unaffordable, leading to an increase in defaults.

A proportion of the Group's loans charge a variable interest rate (either from the date the funds are lent or after an initial fixed rate period) where the interest rate is a fixed margin over Bank of England Base Rate or the Term Sterling Overnight Index Average ("**Term SONIA**"). When the rate of interest on these loans increases significantly, it can result in increased borrower default risk.

Since 6 April 2020 no deduction has been available for finance costs against rental income for individual landlords and instead a borrower is, broadly, only entitled to a tax credit at the basic rate of income tax for finance costs against that borrower's income tax liability, which may result in higher taxes for individual landlords (depending on their personal tax circumstances). Additionally, with effect from 6 April 2027, separate tax rates for property income will apply in England, Wales and Northern Ireland. The income tax rates for rental income for these individual landlords will be as follows: 22 per cent. at the property basic rate, 42 per cent. at the property higher rate, and 47 per cent. at the property additional rate. Property income will be treated as the highest part of a person's income, except where the person has savings and/or dividend income. Where a person has savings and/or dividend income then any property income will be treated as the part of the person's income immediately before the savings and/or dividend income. The increase in income tax rates for rental income may adversely affect the ability of individual borrowers of buy-to-let mortgage loans to meet their obligations under those mortgage loans.

Other factors in borrowers' personal or financial circumstances may affect the ability of borrowers to repay their mortgage loans. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by, and bankruptcies of, borrowers and could ultimately have an adverse impact on the ability of borrowers to repay their mortgage loans. In addition, the ability of a borrower to sell a property given as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that mortgage loan will depend upon a number of factors, including the availability of buyers for that property and its condition and the value of that property at the time.

Increased numbers of delinquencies or 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.

#### **1.4 *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, from small and large multi-product high street banks, global banks with digital offerings and highly specialised non-bank operations funded by private equity, in all markets in which it operates. The Group faces competition from established financial services providers as well as new market entrants, including "challenger banks" and "neo banks" with specific areas of market focus, and non-bank competitors. Competition in the UK mortgage market, including from challenger banks seeking scale and growth over a short period of time, is continuing to create downward price pressure on mortgage and other lending rates. The downward price pressure has increased following the introduction of ring-fencing legislation in the UK, with some ring-fenced competitor banks deploying excess liquidity in the broker mortgage market.

High-profile consolidations such as Nationwide Building Society with Virgin Money, Coventry Building Society with The Co-Operative Bank and the proposed purchase of TSB Bank plc by Banco Santander S.A. may provide increased competition from the merged entities benefitting from economic scale. In addition, the development of a secure system known as Open Banking allows consumers to share their financial data from their bank with authorised third-party providers into a wider range of products, and National Payments Vision published by the UK Government in September 2025, which sets out its ambition for the sector, may further increase competition in the Group's industry.

The Group targets specialist landlords in the buy-to-let sector. These landlords will typically let out four or more properties or operate with more complex property portfolios. They will generally run their portfolio as a business and have both a strong understanding of their local lettings market and a high level of personal day-to-day involvement. Despite an increased level of interest by the larger banks in the PRS, this sector is relatively underserved by many of the larger UK financial institutions and there is a risk that larger financial institutions may enter further into the specialist landlord buy-to-let sector, increasing competition and adversely impacting the Issuer's ability to meet its obligations under the Notes.

#### **1.5 *Risks related to climate change***

The physical and transition risks of climate change have the potential to pose a significant threat to the Group's business.

Multilateral agreements, in particular the 2015 Paris Agreement, and subsequent UK government commitments to achieving net zero carbon emissions by 2050, will require widespread levels of adjustment across all sectors of the UK economy and markets in which the Group operates. The PRA, the Group's prudential regulator, has identified climate change risk as a priority issue. The UK government and regulators may introduce increasingly stringent rules and policies designed to achieve targeted outcomes, which could increase compliance costs for the Group, drive asset impairments and result in regulatory fines or other action if the Group is unable to implement adequate reforms sufficiently quickly.

The impact of regulatory, policy, commercial and technological changes is expected to be highly significant and may be disruptive, especially if such changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. How the Group assesses and responds to these developments and challenges could increase its costs of business, and a failure to identify and adapt its business to meet new rules or evolving expectations, or any perception that it is under-performing relative to peer lenders, could result in reputational damage and/or risk of legal claims.

The tightening of energy efficiency standards for domestic properties also has the potential to impact the buy-to-let market and the value of property stock. This could depress the demand for buy-to-let mortgages that are a key part of the Group's business model and could also adversely impact the Issuer's ability to fulfil its obligations under the Notes.

If the Group does not adequately embed climate risk into its risk framework to appropriately measure, manage and disclose the various financial, transition and physical risks it faces associated with climate change, or fails to adapt its business model to the changing regulatory requirements and market expectations on a timely basis, it may have a material and adverse impact on the Group's level of business growth, its competitiveness, profitability, prudential capital requirements, credit ratings, cost of funding, reputation, results of operation and financial condition.

## **2 Operational Risks**

### **2.1 *The Group's risk management framework, systems and processes, and related guidelines and policies, may prove inadequate to manage its risks, and any failure to properly assess or manage such risks could harm the Group***

The Group faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. Effective risk management requires, among other things, robust policies, processes and controls for the accurate identification and control of many transactions and events, and the Group's risk management policies, processes and controls may not prove to be adequate. The Group has a range of techniques, some of which are based on historical market behaviour, designed to identify, assess and manage the various risks which it faces, and uses internally developed models to inform its financial decision making. These methods may be inadequate for predicting future risk exposure, and such risks may prove to be significantly greater than the estimate derived from historical experience. Furthermore, whilst the Group has over 30 years of buy-to-let performance data on its most mature and significant franchise, in certain other products, Paragon Bank has a limited operating history and, consequently, does not have a long track record on which it can assess the performance of its systems and processes in respect of those products. As such, it may be difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on the Group's financial performance and business operations, particularly in periods of unusual or extreme market conditions. The Group is also limited by a maximum level of risk that it can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective. If the Group's risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on its business, financial condition, results of operations or prospects.

### **2.2 *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, insufficient oversight of third parties or a data security breach***

The threat posed by cyber-attacks continues to grow, with artificial intelligence an additional challenge, and the banking industry continues to be subject to multiple cyber-attacks. Activists, nation states, criminal gangs, insiders and opportunists are among those targeting bank operating 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 confidential and other information processed and stored in 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 relies on third party providers for several key services including its savings offering and in respect of critical information technology ("IT") services. The oversight of third parties is seen as critical to overall resilience and, if such oversight is not sufficiently robust, any failure of the Group's IT services could damage its ability to operate effectively.

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 is supported by certification with appropriate internationally defined standards, enabling the Group to maintain compliance with UK and EU law and regulations regarding 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 a cyber-attack 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-crime 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.

### **2.3 *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***

The Group's activities subject it to risks relating to the management and maintenance of IT systems, the migration of data and the processing of transactions. A significant breakdown of the Group's IT 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 good customer outcomes), equipment failures, natural disasters, terrorist attacks or the failure of external systems, such as those of the Group's clearing 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.

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

On 27 July 2022, PS22/9, a new Consumer Duty, set out higher and clearer standards of consumer protection across financial services, requiring firms to deliver good outcomes for customers and to consider the needs, characteristics and objectives of the customer and how they behave at every stage of the customer journey in order to deliver good outcomes. As a provider of financial products and services to a broad customer base, which includes retail and small and medium size enterprise customers, the Group is exposed to potential conduct risk should it fail to achieve good customer outcomes. This could arise, for example, if certain products fail to meet the needs of customers, if vulnerable customers or

customers in financial difficulties are not treated appropriately or if customer complaints are not handled effectively.

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 good 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.

## **2.5 *Failures of regulatory compliance or business ethics could adversely affect the Group's reputation and operations***

Maintenance of a strong reputation across all lines of business and operational activities is core to the Group's business model and philosophy. Detrimental reputational impacts may result from the failure to safeguard the integrity of the brand or failure to meet external expectations in conducting business practices.

The Group has an external relations function that aims to ensure the reputation of the Group remains protected at all times, however, there is a risk that this function may not always be able to protect the reputation of the Group.

Despite strict regulatory compliance and business ethics policies, there is a risk of employees, brokers or suppliers engaging in activities that violate the Group's values, breach its code of conduct, or could be perceived as unethical. This could involve corruption or breach legal and regulatory requirements (including money laundering and anti-terrorism financing requirements). There is also a risk that employees or brokers will commit such violations in their interactions with colleagues, customers and others.

Such shortcomings in ethical standards and/or regulatory compliance could result in financial losses, sanctions from supervisory authorities and tarnished reputation. The realisation of such risks could adversely affect the Group's results and financial position.

## **2.6 *The Group is exposed to the risk of failure of wholesale counterparties with which it places deposits and enters into hedging transactions***

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

The Group undertakes hedging arrangements to mitigate interest rate risk. The majority of these hedges are centrally cleared whilst the remaining hedges have protocols that require collateral to be posted subject to changes in the mark-to-market value of the hedges. At times the mark-to-market value of these hedging transactions can be material and, notwithstanding the collateral protocols, the Group is exposed to the risk of loss in the event of the failure of a hedging counterparty.

If any counterparty failed this could give rise to a loss which could have an adverse effect on the Group's business, profitability or financial condition.

**2.7 *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 Group is dependent on recruiting, retaining and developing appropriately skilled, competent people at all levels of the organisation. If the Group is not able to attract and retain such personnel or ensure that the experience, skills and knowledge of key management and the workforce are not lost from its business over time, 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.

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

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, acting alone or in concert with professional advisors, seeking to obtain funds by adopting a false identity, using inflated property valuations, purporting to own a property (or other asset) or seeking a release of security without redeeming the underlying loan.

The Group has in place processes and procedures to counteract fraud, and insurance in place to provide 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 profits which could in turn adversely impact the Issuer's ability to fulfil its obligations under the Notes.

**2.9 *The Group could be negatively affected by contagion resulting from an actual or perceived deterioration in the soundness of other financial institutions and counterparties***

The high level of interdependence between financial institutions exposes the Group to the risk of actual or perceived deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions through contagion. Concerns about, or a default by, an institution could, through contagion, lead to significant liquidity problems, losses or defaults in other institutions because of such interdependencies. Contagion could therefore have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

### **3 Regulatory Risks**

**3.1 *Legislative and regulatory changes could require the Group to raise further capital, increase the Group's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects***

As a business offering financial services, the Group is subject to ongoing regulation by the FCA and the PRA. If the Group fails to comply with any relevant regulations, there is a risk of a material adverse effect on its business due to sanctions, fines, customer redress or other actions.

Regulators and other policy making bodies in the UK and worldwide continue to produce and adopt legislative and regulatory proposals and changes which have and could cause the Group to raise further capital, increase the Group's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects. In particular:

- the Senior Managers and Certification Regime aims to increase the accountability of senior managers and promote greater transparency and minimum standards of good practice in the financial services industry. Complying with these regulations imposes costs on the Group's business to implement and maintain policies and procedures, as well as the time and attention of senior management. These rules also provide for a criminal offence for senior managers of causing certain financial institutions to fail, which involves personal criminal liability for making reckless management decisions. Senior managers are subject to pre-approval by the relevant regulator and others who are capable of causing significant harm to the firm or its customers are subject to an ongoing certification regime, under which firms must assess and certify they are fit and proper to perform their role;
- the Group's borrowing costs and capital requirements could be affected by prudential regulatory developments, including UK CRD, which onshored in the UK (as a result of the UK's exit from the EU) the EU CRD, the legislative package implementing the proposals of the Basel Committee (known as "**Basel III**") and subsequent reforms to the package (known as "**Basel 3.1**"), the restatement of the UK CRD Regulation within the PRA Rulebook and the modification thereof and other regulatory developments impacting capital, leverage and liquidity positions (including the imposition of the Liquidity Coverage Ratio ("**LCR**") and the net stable funding ratio). These prudential regulatory requirements may change as a result of further changes to the international framework, legislative changes in the UK or changes to the way in which the PRA interprets and applies these requirements to UK banks;
- the Group's ability to do business could be constrained if it fails to maintain sufficient levels of capital. Further, if the Group fails to meet its minimum regulatory capital requirements, this could result in administrative actions or sanctions against it or it could be subject to the exercise of resolution powers. Any change that limits the Group's ability to manage its balance sheet and capital resources effectively (including any reductions in profits and retained earnings as a result of credit losses, write downs, increases in Risk Weighted Assets, delays in asset disposals or the inability to raise finance through wholesale markets) could have a material adverse effect on its business, financial condition, results of operations and/or prospects;
- in the UK, the Banking Act 2009 as amended (the "**Banking Act**") provides for a package of minimum early intervention and resolution-related tools and powers which the UK resolution authorities may apply in respect of in-scope UK financial institutions, including the Issuer. Further changes could be made to the recovery and resolution framework in the UK;
- the Group is subject to the UK's consumer credit regime in relation to the provision of regulated credit agreements and regulated hire agreements. Failure to comply with certain of those requirements may result in the agreements being unenforceable against the borrower or hirer without an order from the FCA or court (as applicable) and/or the bank as lender or owner being precluded from recovering interest and/or charges from borrowers for the period of non-compliance. For further information, see "*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – The Consumer Credit Regime*";
- the Group's business is subject to the Consumer Rights Act 2015 (the "**CRA**"), which consolidated previous consumer protection legislation in the UK and came into force on 26 March 2015. Under the CRA, Group entities which enter into agreements with consumers are required to ensure that its terms with relevant customers are fair. Any breach of these requirements could mean that the unfair terms in question are not binding or enforceable, which may affect the Group's ability to recover monies owed under such agreements;

- the Group is subject to competition law, and regulated by the FCA, PRA and CMA in this respect. The Group may face increasing regulatory scrutiny, compliance costs and competition impact which may affect the Group’s ability to generate revenues and achieve its strategic aims. For further information, see “*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – Competition Law*”;
- the Bank of England and PRA continue to explore climate change’s interaction with prudential regulation and capital requirements. The Group may face increasing regulatory scrutiny and compliance costs which may affect the Group’s ability to generate revenues. For further information, see “*Regulatory Developments – Prudential Regulation – Prudential Regulation of Climate Change*”;
- the Group is subject to the UK operational resilience regime. The Group may face increased compliance costs if regulatory requirements relating to operational resilience change. For further information, see “*Regulatory Developments – UK and European Banking and Financial Services Reform Initiatives – UK Operational Resilience Regime*”; and
- the Group is monitoring the FCA’s work in relation to motor finance commissions, and other related developments in that area following the Supreme Court decision in relation to three motor finance commission cases (the “**Supreme Court Decision**”). The Group has a comparatively small motor finance portfolio (comprising 2.2 per cent. of the Group’s loans to customers balance as at 30 September 2025), and prior to the Supreme Court Decision, had made a provision on a scenario based approach of £6.5 million in the March 2025 unaudited half year end accounts of the Issuer (2024 Audited Financial Statements: nil). Following the Supreme Court Decision and factoring in the FCA’s current proposed redress scheme methodology, the Group has applied a “most likely” methodology to that calculation and has amended the provision to £25.5 million for potential redress or other costs in relation to this point in the 2025 Audited Financial Statements. This charge has been recognised as a separate balance sheet item and excluded from the Group’s analysis of underlying performance, as it relates to historical, rather than current, trading. There is however significant uncertainty with regard to legal and regulatory interventions around commissions paid in the motor finance market. These processes are far from complete, and therefore the scope and extent of any exposure is unclear. It is also possible that the principles articulated in relation to the motor finance market could have a broader application extending to other types of commission-based lending. The Group continues to manage complaints in line with the regulator’s requirements.

In addition, it is possible that regulatory and/or legislative changes could prompt the development of new rules to, among other things, increase competition in the markets in which the Group operates. This could result in a material adverse impact or increased operational and compliance costs to the industry and therefore on the Group. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group’s operations, structure, costs and/or capital requirements. Accordingly, the Group cannot ensure that the implementation of any of the foregoing matters or any other proposed changes will not have a material adverse effect on its business, financial condition, results of operations and/or prospects.

### 3.2 *The Group is exposed to risk resulting from GDPR*

The European Commission’s General Data Protection Regulation (“**GDPR**”) came into force on 25 May 2018 and provided a single set of rules on data protection, directly applicable in all EU Member States. From 31 December 2020, GDPR has formed part of domestic law of the UK by virtue of section 3 of the EUWA and as amended by relevant UK statutory instruments. The main provisions include a

requirement to notify regulators of breaches within 72 hours of identification, increased sanctions including fines of up to four per cent. of an enterprise's annual worldwide turnover and reduced timelines within which firms must respond to subject access requests (within 30 calendar days). In some circumstances, consumers are also able to request deletion of all personal data held by the data controller and third party recipients. This significantly increased the regulatory burden in relation to processing personal customer, employee and other data in the course of business and ensuring ongoing compliance with the regime.

### **3.3 *The Group is required to pay levies under the Financial Services Compensation Scheme and is exposed to future increases of such levies, which might impact its profits***

The UK's Financial Services Compensation Scheme ("FSCS") pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. Based on Paragon Bank's share of protected deposits, Paragon Bank pays levies to the FSCS to enable the scheme to meet claims against it. While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants. Any such levies may be significant amounts that may, as a result, have a material effect on the Group's profits. In common with other financial institutions which are subject to the FSCS, the Group also has a potential exposure to future levies resulting from the failure of other financial institutions and claims which arise against the FSCS as a result of such failure. Historically, compensation scheme levies similar to the FSCS have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will not be any claims against the FSCS and subsequent increased FSCS levies payable by the Group. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on its results of operations.

Moreover, there can be no assurance that there will be no further actions taken under the Banking Act, or as a result of the Bank Resolution (Recapitalisation) Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by Paragon Bank. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on the results of operations of the Group. Further costs and risks may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes. For further information, see "*Regulatory Developments – Prudential Developments – FSCS and Deposit Guarantee Scheme*".

## **4 Market Risks**

### **4.1 *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 Group's cost of funds is likely to result in the Group seeking to preserve its net interest margin, 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 proportion of the Group's loan assets and retail deposits carry a fixed rate of interest. The Group enters into hedging arrangements to mitigate 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.

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

Funding risk is the risk that the Group is unable to raise funds at a commercially acceptable cost to support the delivery of its strategic plan or sustain lending commitments. Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due. The Group's primary liquidity risk exposure arises through the withdrawal of customer deposits, such as easy access products, where customers have the ability to withdraw funds with limited or no notice. Exposure also arises from the refinancing of wholesale funding at maturity and the ability to fund new and existing committed lending obligations, including mortgage pipeline.

The Group is predominantly funded by FSCS covered retail deposits, augmented by unsecured debt, RMBS securitisations and its covered bond programme. Following its launch in April 2020, the Group has also accessed the BoE's "Term Funding Scheme with additional incentives for SMEs" (the "TFSME"), which was established to provide banks with cost-effective funds to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption caused by COVID-19. The substantial majority of the Group's TFSME funding matured during October 2025.

As part of its funding plan, the Group intends to continue to access the wholesale funding markets. If during periods of acute economic or market disruption there was a reduction in investor appetite for holding its securities, or the wholesale funding markets were to be partially or fully closed, it is likely that wholesale funding would prove more difficult to obtain on commercially acceptable terms. Under such circumstances, the Group may incur additional costs and the Group may be unable to successfully deliver its medium-term growth strategy. Profound curtailments of central bank liquidity to the financial markets in connection with other market stresses, though unlikely, might have a material adverse effect on the Group's business, financial position and results of operations, depending on its funding position at that time.

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

Initiatives to raise additional deposits through market-leading pricing could have an adverse impact on the Group's net interest income and margin through the cost of both paying higher interest rates to new customers and existing customers switching to these higher-rate products.

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.

**4.3 *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 funding and 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 the Notes. 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.

**4.4 *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 defined benefit and a 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 could produce actuarial deficits that lead 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 principal on the Notes.

**(B) Risks Relating to the Notes**

5

**5.1 *The Notes will be subordinated to most of the Issuer's liabilities and the rights of any holders of Conversion Shares will be further subordinated***

The Issuer's obligations under the Notes will be unsecured and subordinated to all of the Issuer's obligations to Senior Creditors. In addition, payment of principal or interest in respect of the Notes cannot be made in respect of the Notes except to the extent that the Issuer could make such payment and still satisfy the Solvency Condition immediately thereafter. The Insolvency Act splits a relevant financial institution's non-preferential debts into classes and provides that ordinary non-preferential debts will rank ahead of secondary non-preferential debts and tertiary non-preferential debts. The Notes constitute tertiary non-preferential debts under the Insolvency Act, and therefore both ordinary and secondary non-preferential debts would continue to rank ahead of claims in respect of the Notes.

If a Winding Up or an Administration occurs (i) prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in Condition 4(b) (*Winding Up or Administration occurring prior to a Trigger Event*)), such amount, if any, as would have been payable to the Holder of such Note if, on the day prior to the commencement of the Winding Up or Administration and thereafter, such Holder were the holder of Notional Preference Shares ranking *pari passu* as to a return of assets on a Winding Up or an Administration with the holders of the most senior class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding Up or Administration over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that such Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding Up or Administration an amount equal to the principal amount of the relevant Note and any Accrued Interest (provided not otherwise cancelled in accordance with the Conditions) and any damages awarded for breach of any obligations in respect of such Note, whether or not the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable (and, in the case of an Administration, on the assumption that such preference shareholders were

entitled to claim and recover in respect of their preference shares to the same degree as in a Winding Up) or (ii) on or after the date on which a Trigger Event occurs but before the Conversion Date, then for the purposes of determining the claim of a Holder in such Winding Up or Administration, the Conversion Date in respect of an Automatic Conversion shall be deemed to have occurred immediately before the occurrence of such Winding Up or Administration and, accordingly, as if such Holder were, throughout such Winding Up or Administration, the holder of such number of the Issuer's ordinary shares as it would have been entitled to receive upon Automatic Conversion (ignoring for this purpose the Issuer's right to make an election for a Conversion Shares Offer to be effected pursuant to Condition 8(d) (*Automatic Conversion – Conversion Shares Offer*)), whether or not the Solvency Condition is satisfied on such date (and, in the case of an Administration, on the assumption that shareholders were entitled to claim and recover in respect of their ordinary shares to the same degree as in a winding up or liquidation)).

Therefore, if, on a Winding Up or an Administration, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of Senior Creditors in full, the Holders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of Senior Creditors in full but insufficient assets to enable the Issuer to pay claims arising under its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes (which, in the event of a Winding Up or an Administration occurring in the intervening period between a Trigger Event and the Conversion Date, will be claims that rank *pari passu* with ordinary shares of the Issuer), the Holders will lose some (which may be substantially all or 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 “*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*”.

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

## **5.2 *The Notes are not protected by the Financial Services Compensation Scheme (“FSCS”)***

Unlike a bank deposit, the Notes are not protected by the FSCS. As a result, the FSCS will not pay compensation to an investor in the Notes upon the failure of the Issuer. If the Issuer goes out of business or becomes insolvent, Holders may lose all or part of their investment in the Notes.

Among other things, the Notes are unsecured and subordinated obligations of the Issuer, as described above. Interest payments on the Notes are discretionary and the Issuer may be required to cancel interest payments on the Notes in certain circumstances, see “*The Issuer may at any time elect for any reason,*

*and in certain circumstances shall be required, not to make payments of interest on the Notes*". In addition, the Notes will be subject to conversion into ordinary shares following the occurrence of a Trigger Event, see *"Upon the occurrence of a Trigger Event, Holders will lose all or some of the value of their investment in the Notes"*. Investments in the Notes do not benefit from any protection provided pursuant to the domestic law which implemented Directive (2014/49/EU) of the European Parliament and of the Council on deposit guarantee schemes (such as the UK Financial Services Compensation Scheme) in the United Kingdom or otherwise. Therefore, if the Issuer becomes insolvent or defaults on its obligations, investors investing in the Notes could lose all or part of their investment in the Notes.

In addition, the claims of investors in the Notes may be varied or extinguished pursuant to the exercise of powers under the Banking Act, including the mandatory write-down and conversion power and the bail-in tool (see further *"The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes"*), which could lead to investors in the Notes losing some or all of their investment. The write-down and conversion of capital instruments and liabilities power does not apply to ordinary bank deposits and the bail-in power must be applied in a specified preference order which would generally result in it being applied to capital instruments such as the Notes prior to its being applied to bank deposits (to the extent that such deposits would be subject to the bail-in power at all).

### **5.3 *The Issuer is a holding company, so the Notes are structurally subordinated***

The business of the Group is carried out through the operating subsidiaries of the Issuer and therefore the Issuer depends upon receipt of funds, via dividends or interest payments from its operating subsidiaries, to fund payments of principal and interest on the Notes.

Holders of the Notes will not have a direct claim against the assets of any of the Issuer's operating subsidiaries in respect of the Notes. The assets of any such subsidiaries will in the first instance be used to pay their creditors.

As a result, the right of the Holders to receive payments under the Notes will be structurally subordinated to all liabilities of all of the Issuer's operating subsidiaries (in addition to being contractually subordinated as described under the risk factor titled *"The Notes will be subordinated to most of the Issuer's liabilities and the rights of any holders of Conversion Shares"*). Structural subordination in this context means that, in the event of a winding up or insolvency of an operating subsidiary of the Issuer, any creditors of such subsidiary would have (i) preferential claims to the assets of that subsidiary ahead of the Issuer in respect of the Issuer's holding of ordinary shares in such subsidiary and in respect of claims of the Issuer against such subsidiary that rank junior to the claims of such third party creditor and (ii) in respect of claims of the Issuer against such subsidiary that rank *pari passu* with any third party creditors' or preference shareholders' claims, *pari passu* claims to the assets of that subsidiary with those claims of the Issuer.

The Notes are not guaranteed by Paragon Bank the principal operating entity of the Group, or any other Group entity. The assets and the cash within Paragon Bank or any other Group entity would be used to repay depositors and other senior creditors within Paragon Bank or such Group entity (as applicable) in the first instance. In addition, Paragon Bank's ability to pay dividends, and the amount of any such dividends, to the Issuer at any time is subject to its compliance with applicable regulatory capital requirements. Such regulatory capital requirements are subject to change.

As well as the risk of losses in the event of a Group subsidiary's winding up or insolvency, the Issuer may suffer losses if any of its loans to, or investments in, such subsidiary are subject to write-down and conversion by statutory power, regulatory direction or the operation of a contractual mechanism in the terms of such loans or investments or if the subsidiary is otherwise subject to resolution proceedings. In

particular, the Banking Act specifies that the resolution powers should be applied in a manner such that losses are transferred to shareholders and creditors in an order which reflects the hierarchy of issued instruments under the Capital Regulations, and which otherwise respects the hierarchy of claims in an ordinary insolvency. In general terms, the more junior the investments in, and loans made to, any Group subsidiary are, relative to third-party investors, the greater the losses likely to be suffered by the Issuer in the event that any Group subsidiary enters into resolution proceedings or is subject to write-down or conversion of its capital instruments or internal eligible liabilities. See the risk factor titled “*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*” and the risk factor titled “*Mandatory write-down and conversion of capital instruments may affect the Notes*” below.

The Issuer has in the past made, and may continue to make, loans to, and investments in, Group subsidiaries with the proceeds received from the Issuer’s issuance of debt instruments (including the Notes). Such loans to, and investments made by, the Issuer in a subsidiary will generally be subordinated to depositors and other unsubordinated creditors and may be subordinated further to meet regulatory requirements and furthermore may contain mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of the Group or such subsidiary or upon regulatory direction would result in a write-down or conversion into equity of such loans and investments.

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

Furthermore, if Paragon Bank or any of the other Group subsidiaries were to be wound up, liquidated or dissolved (i) the Holders would have no direct recourse against such subsidiary and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the relevant proceedings 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. If Paragon Bank or any of the other Group subsidiaries were subject to resolution proceedings (i) the Holders would have no direct recourse against such subsidiary and (ii) the Holders themselves may also be exposed to losses pursuant to the exercise by the Resolution Authority of the resolution powers conferred by the SRR (as defined below) or the mandatory write-down and conversion power – see “*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*”.

#### **5.4 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 Holders on a Winding Up or an Administration and/or may increase the likelihood of a cancellation of interest under the Notes. In addition, the Notes do not contain any restriction on the Issuer issuing securities with preferential rights to the Notes or securities with similar or different provisions to those set out herein.

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

The Issuer may at any time and for any reason elect at its full and absolute discretion to cancel (in whole or in part) the Interest Amount that would otherwise be payable on any Interest Payment Date. If the Issuer does not pay an Interest Amount (or part thereof) on the relevant Interest Payment Date, such non-payment shall evidence the cancellation of such Interest Amount in accordance with the Conditions, and accordingly such Interest Amount shall not in any such case be due and payable.

Furthermore, the Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that:

- (i) such Interest Amount (or part thereof), when aggregated with other specified interest payments or distributions, exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date - see also “*The level of the Issuer’s Distributable Items and its available funding is affected by a number of factors, and insufficient Distributable Items (or funding) will (or may) restrict the ability of the Issuer to make interest payments on the Notes*” below;
- (ii) the Issuer is required under the then prevailing Capital Regulations and the payment of such Interest Amount (or part thereof) would cause, when aggregated together with other distributions of the kind referred to in Rule 4.3(2) of Chapter 4 (or any succeeding or analogous rules amending or replacing such rule), the Maximum Distributable Amount (if any) then applicable to the Regulatory Group to be exceeded - see also “*The Capital Regulations impose capital and regulatory requirements that will restrict the Issuer’s ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*” below;
- (iii) the PRA orders the Issuer to cancel such payment - see also “*The Capital Regulations impose capital and regulatory requirements that will restrict the Issuer’s ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*” below; or
- (iv) the Solvency Condition is not satisfied on the relevant Interest Payment Date.

Future legislation changes may include additional cancellation features that will require the Issuer to cancel Interest Amounts.

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

Any Interest Amount (or part thereof) not so paid on any such Interest Payment Date shall be cancelled and shall no longer be due and payable by the Issuer. The non-payment or cancellation of an Interest Amount (or part thereof) in accordance with the Conditions will not constitute a default of the Issuer under the Notes for any purpose. Interest payments are non-cumulative and Holders shall have no right to any cancelled (or unpaid) Interest Amount or to receive any additional interest or compensation as a result of such cancellation or non-payment, whether under the Notes or the Trust Deed, on a Winding Up, an Administration or otherwise. The Issuer may use such cancelled payments without restriction to meet its obligations as they fall due and the cancellation of any Interest Amount (or part thereof) will not impose any restrictions on the Issuer nor prevent or restrict the Issuer from declaring or making any distributions or interest payments on any of its shares or other instruments or obligations.

If the Issuer elects to cancel, or is prohibited from paying, Interest Amounts (or part thereof) at any time, there is no restriction (other than any relevant restriction imposed by any applicable law or regulation) on the Issuer from otherwise making distributions or any other payments to the holders of the ordinary shares of the Issuer or any other securities issued by any member of the Group, including securities ranking *pari passu* with or junior to the Notes. It is the Board's current intention that, whenever exercising its discretion to declare any distribution in respect of the ordinary shares, or its discretion to cancel interest on the Notes, the Board will take into account the relative ranking of these instruments in its capital structure. However, the Board may at any time depart from this policy at its sole discretion.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication that the Common Equity Tier 1 Capital Ratio of the Regulatory Group is trending towards the combined capital buffer requirement (the level at which the "maximum distributable amount" restriction under Chapter 4 (or any succeeding or analogous Capital Regulations amending or replacing such chapter) and the terms and conditions becomes relevant) may have an adverse effect on the market price of the Notes.

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

The Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that such Interest Amount (or part thereof) would, when aggregated with other specified interest payments or distributions, exceed the Distributable Items of the Issuer as at such Interest Payment Date. In addition, the Issuer may at all times and for any reason elect at its full and absolute discretion to cancel (in whole or in part) any Interest Amount that would otherwise be payable on any Interest Payment Date. Further details regarding distributable reserves of the Issuer is given in Note 42 of the 2025 Audited Financial Statements (as defined herein). As at 30 September 2025, the Issuer had available distributable items of £455.8 million.<sup>1</sup>

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

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<sup>1</sup> The £455.8 million has been calculated by taking the Profit and Loss account of £479.5 million and deducting (£23.7 million) in respect of the merger reserve.

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

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

In addition, the ability of the Issuer's subsidiaries to make distributions and the Issuer's ability to receive distributions and other payments from its investments in other entities is subject to applicable laws and other restrictions, including such subsidiaries' respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws. For example, Paragon Bank is an institution regulated by the PRA and subject to the UK CRD regime, including capital and combined buffer requirements such as those described for the Regulatory Group (see "*The Capital Regulations impose capital and regulatory requirements that will restrict the Issuer's ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes. In addition, the PRA has broad powers to impose prudential requirements on the Issuer which may include requiring the Issuer to limit or cancel interest on the Notes*"). Such laws and regulations could limit the payment of dividends, distributions and other payments to the Issuer by its subsidiaries, which could restrict the Issuer's available funding for meeting its obligations or funding other operations and may also restrict the Issuer's ability to maintain or increase its Distributable Items. These factors could, in turn, restrict the Issuer's ability to make interest payments on the Notes.

The Issuer shall not make an interest payment on the Notes on any Interest Payment Date (and such interest payment shall therefore be cancelled and thus shall not be due and payable on such Interest Payment Date) if the level of Distributable Items is insufficient to fund that payment, as discussed in "*The Issuer may at any time elect for any reason, and in certain circumstances shall be required, not to make payments of interest on the Notes*". In addition, if the Issuer's ability to receive distributions from its subsidiaries is restricted and alternative sources of funding are not available, the Issuer may exercise its discretion to cancel interest payments in respect of the Notes, as discussed above.

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

The capital and regulatory framework to which the Group is subject imposes certain requirements for the Regulatory Group to hold sufficient levels of capital, including CET1 capital and leverage capacity. A failure to comply with such requirements, as the same may be amended from time to time, may result in restrictions on the Issuer's ability to make discretionary distributions (including on the Notes) in certain circumstances.

In addition, amendments could be made to such framework, to impose general restrictions or prohibitions in relation to discretionary distributions (including in respect of additional tier 1 instruments, such as the Notes) in certain circumstances.

### *Combined buffer requirement*

The Capital Regulations impose capital buffer requirements that are additional to the Pillar 1 “own funds” requirement and are required to be met with common equity tier 1 capital. These capital buffers, as currently applicable to the Issuer on a consolidated basis (in respect of the Regulatory Group), which make up the “combined buffer”, are: (i) the capital conservation buffer and (ii) the institution-specific counter-cyclical buffer. These and other buffers may be applicable to the Group from time to time as determined by a designated authority in the UK.

Furthermore, the PRA requires the Group to hold extra capital to cover risks not covered or insufficiently covered by the Pillar 1 requirements (the “**Pillar 2A requirements**”). The Pillar 2A requirements sit on top of the Pillar 1 requirements so increase the combined buffer requirements and automatic safeguards. For non-systemic firms like Paragon Bank, the PRA tends to set the Pillar 2A capital requirements on a two to three year cycle, although the PRA can change this frequency should it be required. The PRA’s assessment is derived from each firm’s individual capital assessment as documented in their Internal Capital Adequacy Assessment Process. Under current PRA rules, the Pillar 2A must be met with at least 56.25 per cent. common equity tier 1 capital and no more than 25 per cent. tier 2 capital. In addition, the capital that firms use to meet their minimum requirements (Pillar 1 and Pillar 2A) cannot be counted towards meeting the “combined buffer requirement” (which is described below). The PRA capital buffer (also known as Pillar 2B requirements) is set by the PRA on a bank-by-bank basis using supervisory judgement informed by the impact of stress scenarios on a bank’s capital requirements and resources and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in the bank’s risk management and governance. The PRA’s Pillar 2B assessment takes place alongside the Pillar 2A assessment.

The methodology for Pillar 2A is currently undergoing a PRA review, with a two-part PRA consultation process. On 22 May 2025, the PRA issued a consultation paper (CP12/25), which makes proposals in respect of credit risk, operational risk, pension obligation risk, market risk and counterparty credit risk. The consultation period ended on 30 September 2025, with the implementation date for changes to pension obligation risk and market risk and counterparty credit risk expected to be 1 July 2026 and the implementation date for the remaining proposals concerning credit risk and operational risk expected to be 1 January 2027. The PRA has stated that it will in future conduct a more in-depth review of individual methodologies within Pillar 2A. In October 2025, the PRA confirmed that it will be retiring the “refined methodology for P2A”. This approach sought to bridge the gap between firms with IRB models and those on the Standardised approaches for the calculation of capital requirements. The PRA argue that the refined approach is no longer required due to changes in Basel 3.1 (the implementation of an output floor) alongside revised modelling approaches which have materially closed the gap between IRB and Standardised approaches for low risk, low LTV residential exposures. On 20 January 2026, the PRA published its policy statement “*Retiring the refined methodology to Pillar 2A – final*” (“PS2/26”) which confirmed the policy to retire the refined methodology to Pillar 2A for all firms will take effect from 1 January 2027. From this date, the refined methodology will no longer apply to all firms, including Small Domestic Deposit Takers (“**SDDTs**”), as they will be subject to the Basel 3.1 standardised approach to credit risk.

The PRA capital buffer rules applicable to the Issuer require that institutions that fail to meet the “combined buffer requirement” (broadly, as implemented in the UK, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and, if applicable, the other systemically important institutions buffer and the global systemically important institutions buffer, in each case as applicable to the institution) will be subject to restricted “discretionary payments” (which are defined broadly as payments relating to common equity tier 1, variable remuneration, discretionary

pension benefits and payments on additional tier 1 instruments) (the “**MDA Restrictions**”). These types of restrictions have applied in the UK since 1 January 2016.

In the event of a breach of the “combined buffer requirement”, the MDA Restrictions will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution since the last decision on the distribution of profits or “discretionary payment” of the institution. Such calculation will result in a “maximum distributable amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (as applicable at the level of the Regulatory Group) the Issuer’s discretionary payments will be restricted and the Issuer may exercise its discretion to cancel (in whole or in part) interest payments in respect of the Notes. As at 30 September 2025, the Regulatory Group held approximately £232.9 million in excess of its total capital requirements (such excess representing approximately 2.7 per cent. of the Risk Weighted Assets).

In addition to the Pillar 1 “own funds” requirement, the UK CRD buffers and the “Pillar 2A” requirement described above, there are additional tools that the PRA and other relevant authorities in the UK have available to them to require UK firms to hold additional capital to address micro-prudential or macro-prudential risks as assessed by the relevant authorities in the UK. These include: the “PRA buffer”, which may be assessed by the PRA to cover risks over a forward-looking planning horizon, including with regard to firm-specific stresses or management and governance weaknesses; and “sectoral capital requirements”, which is a macro-prudential tool available to the FPC of the Bank of England in the UK as a means for the FPC temporarily to increase firms’ capital requirements on exposures to specific sectors. Any failure to meet the PRA buffer could result in the preparation of a capital restoration plan. Such capital restoration plan may impose restrictions on discretionary payments, which may result in a need for management actions including the cancellation (in whole or in part) of interest payments in respect of the Notes.

Moreover, the PRA has a broad power under sections 55M, 192C and 192T of the Financial Services and Markets Act 2000 to impose requirements on the Issuer, the effect of which could be to restrict or prohibit payments of interest on the Notes, which is most likely to materialise if at any time the Regulatory Group is failing, or is expected to fail, to meet its capital requirements. If the PRA imposes such a requirement, the Issuer will exercise its discretion to cancel (in whole or in part, as required by the PRA) interest payments in respect of the Notes.

Separately, certain aspects of the UK regulatory regime may restrict the Issuer’s ability to make discretionary distributions in certain circumstances, in which case the Issuer may reduce or cancel interest payments on the Notes.

On 20 January 2026, the PRA published its final policy statement “*PS 4/26 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs) - final*” (“**PS 4/26**”). PS 4/26 builds on the “strong and simple” regime introduced by the PRA with a view to simplifying the prudential regime for small, domestic-focused banks and building societies, while maintaining their resilience. PS 4/26 provides, amongst other things, that firms which are regulated within the SDDT regime will be required to maintain a simplified “single capital buffer” in place of the current PRA buffers required to be maintained, which will be implemented as part of the Pillar 2B capital framework and will be set at no less than 3.5 per cent. of Risk Weighted Assets of the firm. In connection with this change, the automatic capital conservation measures currently associated with the usage of some PRA buffers under the maximum distributable amount framework will be removed for such firms. The SDDT capital regime will take effect on 1 January 2027.

The Issuer currently meets the SDDT criteria and can apply to become an SDDT. As at the date of this Offering Circular, the Issuer has not yet applied to the SDDT regime but is considering it as part of its overall capital options. If the Issuer were to become regulated under the SDDT regime in the future, the provisions of Condition 5(a)(ii) (*Mandatory cancellation of interest – Maximum Distributable Amount*) would cease to apply to the Notes if and to the extent that the payment restrictions thereunder were no longer required under the prevailing Capital Regulations then applicable to the Issuer. However, in such circumstances, the Issuer may still elect, may be required under a capital restoration plan or may be directed by the PRA, to reduce or cancel interest payments on the Notes if it were to fail to meet its single capital buffer requirement.

The Regulatory Group's capital resources and requirements are, by their nature, calculated by reference to a number of factors, any one of which or combination of which may not be easily observable or capable of calculation by investors. See "*The circumstances surrounding or triggering an Automatic Conversion are unpredictable, and there are a number of factors that could affect the Common Equity Tier 1 Capital Ratio of the Regulatory Group.*" for examples of the type of factors that can affect the Regulatory Group's capital resources and requirements and how they are determined. In addition, changes in the application of the Capital Regulations or any changes to such rules to include more onerous requirements and/or any decrease in the Regulatory Group's capital and leverage resources and/or increase in such requirements and how they are determined, may increase the risk of the Issuer being bound by MDA Restrictions and/or the PRA imposing requirements on the Issuer, each of which may, in turn, increase the risk of the Issuer exercising its discretion to cancel interest payments in respect of the Notes or being subject to mandatory restrictions on interest payments in respect of the Notes.

Holders may not be able to predict accurately the proximity of the risk of discretionary payments on the Notes being prohibited from time to time as a result of the operation of the MDA Restrictions and/or the exercise by the PRA of its broad powers to impose prudential requirements on the Issuer. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of securities. Any indication that a breach of the combined buffer or an exercise by the PRA of its broad powers to impose prudential requirements may occur can be expected to have a material adverse effect on the trading price of the Notes.

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

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

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

The Notes will bear interest at the Initial Interest Rate from (and including) the Issue Date to (but excluding) the First Reset Date. On each Reset Date, the interest rate will be reset to the sum of the relevant Reset Reference Rate and the margin of 3.198 per cent., with such sum, if necessary, converted to a semi-annual rate in accordance with market convention as instructed by the Issuer. The relevant

Reset Interest Rate could be less than the Initial Interest Rate and/or any previous Reset Interest Rate, which could affect the market value of an investment in the Notes.

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

The Notes will be perpetual securities and have no fixed maturity date or fixed redemption date. Accordingly, the Issuer will be under no obligation to repay all or any part of the principal amount of the Notes, the Issuer has no obligation to redeem the Notes at any time and Holders have no right to call for their redemption or otherwise accelerate the repayment of the principal amount of the Notes (except in the very limited circumstances of automatic acceleration following a Winding Up or an Administration as provided in the conditions below under Condition 12(a)(ii) (*Enforcement Events and Remedies – Winding Up or Administration*)).

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

Subject to the Issuer obtaining PRA Permission (and the same not being revoked by the relevant redemption date) 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 Capital Disqualification Event, (ii) on any date from (and including) 5 February 2033 to (and including) the First Reset Date, (iii) on any date from (and including) the date falling six months prior to any subsequent Reset Date to (and including) such Reset Date or (iv) at any time, if the outstanding aggregate principal amount of the Notes is 25 per cent. or less of the aggregate principal amount of the Notes originally issued, in each case, at their principal amount together with any Accrued Interest.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. Furthermore, during periods of perceived increased likelihood that the Notes would be redeemed early, the market value of the Notes may be adversely affected.

Any decision by the Issuer as to whether it will exercise its option to redeem the Notes will be made at the absolute discretion of the Issuer taking into account factors such as, but not limited to, the economic impact of exercising such option to redeem the Notes, any tax consequences, the regulatory requirements and the prevailing market conditions. 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 Holders 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.

**5.12 *Substitution or Variation of the Notes upon the occurrence of a Capital Disqualification Event or a Tax Event***

If at any time a Tax Event or a Capital Disqualification Event occurs, and subject to the Issuer obtaining PRA Permission (and the same not being revoked) and compliance with the Regulatory Preconditions, the Issuer may, as provided in Condition 7 (*Redemption and Purchase; Substitution and Variation*) and without the need for any consent of the Holders, substitute all (but not some only) of the Notes, or vary the terms of all (but not only some) of the Notes so that they remain or, as appropriate, become Qualifying Additional Tier 1 Notes. The conditions of such substituted or varied Notes may have conditions that contain one or more provisions that are substantially different from the conditions of the

original Notes, provided that the relevant Notes remain (or, as appropriate, become) Qualifying Additional Tier 1 Notes, in accordance with the Conditions.

There can be no assurance that, due to the particular circumstances of each Holder, any Qualifying Additional Tier 1 Notes will be as favourable to each Holder in all respects or that, if it were entitled to do so, a particular Holder would make the same determination as the Issuer as to whether the terms of the relevant Qualifying Additional Tier 1 Notes are not materially less favourable to Holders than the terms of the Notes. The Issuer bears no responsibility towards the Holders for any adverse effects of such substitution or variation (including, without limitation, with respect to any adverse tax consequences suffered by any Holder).

### **5.13 *The Notes will not contain events of default and the Holders will have limited remedies***

Payments in respect of the Notes may only be accelerated in the event of the occurrence of a Winding Up or an Administration before the occurrence of a Trigger 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. No interest will be due and payable if such interest has been cancelled or not paid (in whole or in part) as set out in Condition 5(a) (*Cancellation of interest*). Accordingly, no default in payment or otherwise under the Notes will have occurred or be deemed to have occurred in such circumstances.

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of principal on any of the Notes when due is, subject to certain conditions and to the provisions set forth in Condition 12(a) (*Enforcement Events*), for the Trustee to institute proceedings for the winding up of the Issuer in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) and/or proving in any Winding Up or Administration of the Issuer. As such, the remedies available to holders of the Notes are limited, which may make enforcement more difficult.

Although, in the event the Issuer breaches any of its obligations under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Trust Deed or the Notes, including, without limitation, payment of any principal or interest in respect of the Notes and any damages awarded for breach of any obligations), the Trustee may (subject to certain conditions) institute such proceedings against the Issuer as it may think fit to enforce such obligations, the Trustee (acting on behalf of the Holders but not the Trustee acting in its personal capacity under the Trust Deed) and the Holders may not enforce, and may not be entitled to enforce or otherwise claim, against the Issuer any judgment or other award given in such proceedings that requires the payment of money by the Issuer, whether by way of damages or otherwise (a "**Monetary Judgment**"), except by proving and/or claiming such Monetary Judgment in a Winding Up or an Administration of the Issuer.

The exercise of the UK Bail-in Power by the Resolution Authority with respect to the Issuer and/or the Notes does not constitute a Winding Up or an Administration nor give rise to any acceleration rights under the Notes for the Trustee or the Holders.

Prior to the occurrence of any Winding Up or Administration, the Notes will remain subject to Automatic Conversion upon a Trigger Event or the exercise of the mandatory write-down and conversion power and/or the bail-in tool by the Resolution Authority (see "*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*" below). None of these events constitutes an event of default in respect of the Notes.

If the Issuer fails to issue and deliver the Conversion Shares to be issued and delivered on an Automatic Conversion to the Conversion Shares Depository (or to the relevant recipient as contemplated above) in

accordance with the Conditions, a Holder's only right under the Notes against the Issuer for any such failure will be to claim to have such Conversion Shares so issued and delivered.

#### **5.14 *Waiver of set-off***

As set out in Condition 4(d) (*No set-off*) Holders waive any right of set-off, compensation, counterclaim, retention or netting in respect of the Notes, insofar as permitted by applicable law. Therefore, Holders will not be entitled (subject to applicable law) to set-off the Issuer's obligations under the Notes against obligations owed by them to the Issuer. Holders may therefore be required to initiate separate proceedings to recover amounts in respect of any counterclaim and may receive a lower recovery in the event of a Winding Up or an Administration than if set-off, compensation, retention or netting were permitted.

#### **5.15 *Upon the occurrence of a Trigger Event, Holders will lose all or some of the value of their investment in the Notes***

The Notes are being issued for regulatory capital adequacy purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Regulatory Group. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions. One of these relates to the ability of the Notes to be available to absorb any losses of the Issuer. Accordingly, a Trigger Event shall occur if the Common Equity Tier 1 Capital Ratio of the Regulatory Group falls below 7.00 per cent. Whether a Trigger Event has occurred shall be determined by the Issuer or the PRA or any agent appointed by the PRA for such purpose and such determination shall be binding on Holders.

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

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

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

The Notes may also be written off, written down, converted into ordinary shares of the Issuer or otherwise modified in a manner which is materially adverse to investors in circumstances where the Resolution Authority exercises powers under the UK recovery and resolution regime and, similarly, any

Conversion Shares issued on the Conversion Date upon the occurrence of a Trigger Event shall also be subject to such powers. See “*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*” below. In particular, such powers could be exercised before a Trigger Event occurs pursuant to the Conditions (and, therefore, before any Automatic Conversion and issuance of Conversion Shares).

#### **5.16 *Holders will bear the risk of changes in the Regulatory Group’s Common Equity Tier 1 Capital Ratio***

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

The Issuer intends to report publicly the Regulatory Group’s Common Equity Tier 1 Capital Ratio only when public financial reporting is conducted at each half year end and full year end, and therefore during the intervening periods there may be no published updates to the Regulatory Group’s Common Equity Tier 1 Capital Ratio. In addition, there may be no prior warning of adverse changes in the Regulatory Group’s Common Equity Tier 1 Capital Ratio. However, any indication that the Regulatory Group’s Common Equity Tier 1 Capital Ratio is moving towards the level of a Trigger Event may have an adverse effect on the market price of the Notes. A decline or perceived decline in the Regulatory Group’s Common Equity Tier 1 Capital Ratio may significantly affect the trading price of the Notes.

As at 30 September 2025, the Regulatory Group’s Common Equity Tier 1 Capital Ratio of 13.6 per cent. represented a buffer of 4.5 per cent. or approximately £389.7 million in excess of its Common Equity Tier 1 regulatory minimum requirement<sup>2</sup> of 9.1 per cent.<sup>3</sup> (based on a 30 September 2025 Pillar 1 Common Equity Tier 1 requirement of 4.5 per cent., Pillar 2A Common Equity Tier 1 requirement of 0.1 per cent., the capital conservation buffer of 2.5 per cent. and the countercyclical capital buffer of 2 per cent.).

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

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

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<sup>2</sup> Excluding any firm-specific confidential PRA buffer, if applicable.

<sup>3</sup> Assuming an optimised capital structure.

or the PRA or any agent appointed by the PRA for such purpose and such determination shall be binding on Holders.

The Regulatory Group's Common Equity Tier 1 Capital Ratio may fluctuate between public financial reporting periods. The calculation of such ratio could be affected by one or more factors, including, among other things, changes in the mix of the Group's business, major events affecting its earnings, distributions payments by the Issuer, regulatory changes (including changes to definitions and calculations of the Common Equity Tier 1 Capital Ratio and its components, including Common Equity Tier 1 and Risk Weighted Assets), and the Regulatory Group's ability to manage its Risk Weighted Assets. Actions that the Issuer takes could also affect its Common Equity Tier 1 Capital Ratio, including causing it to decline. For example, any growth in the Risk Weighted Assets may result in a reduction in the Common Equity Tier 1 Capital Ratio if not matched by an increase in the Common Equity Tier 1 Capital at a corresponding rate. The Regulatory Group may in the future receive PRA permission to calculate relevant components of its regulatory capital requirements using an internal ratings based model approach, which could also impact the calculation of the Regulatory Group's Common Equity Tier 1 Capital Ratio from time to time. See "*The Group intends to seek approval from the PRA of its internal models to calculate its regulatory capital requirements. Failure to achieve such approval could adversely affect the Regulatory Group's Common Equity Tier 1 Capital Ratio*" below.

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

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

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

In addition, any of the factors that affect the Regulatory Group's overall capital position, including those mentioned above, may in turn affect the Regulatory Group's capital and leverage resources.

**5.18 *The Regulatory Group intends to seek approval from the PRA of its internal models to calculate its regulatory capital requirements. Failure to achieve such approval could adversely affect the Regulatory Group's Common Equity Tier 1 Capital Ratio***

The amount of capital required to be held by the Regulatory Group is based on the risk-weightings of its relevant assets. The methodology to determine the amount of capital required to be held by UK banks is currently based on EU legislation, as it now forms part of UK domestic law, which in turn broadly implements the Basel III capital framework. There are two approaches to calculating the risk-weighting for credit risk to be attributed to a bank's assets: the "standardised approach", which requires that capital be held against exposures based on a prescribed set of risk-weights, according to requirements set in the legislation; and the "internal ratings based approach", which allows banks to develop their own models to quantify required risk-weights for exposures (the use of such models by UK banks must be approved by the PRA).

The Issuer is in discussions with the PRA regarding the internal ratings based (“**IRB**”) application of the Regulatory Group’s model for the buy to let mortgage portfolio and processing the IRB application. In addition, preparatory work for the Group’s development finance portfolio is also well underway as the next stage in the Group’s roll-out plan. The impact of receiving approval from the PRA of the Regulatory Group’s internal models for its buy to let mortgage portfolio (including any potential benefit) is uncertain, although the Issuer believes it could deliver more favourable capital treatment than would be the case if the Regulatory Group remains subject to the standardised approach (in the event that it does not receive approval from the PRA for its internal models for its buy to let mortgage portfolio). Changes to the internal ratings based approach (including as a result of the UK’s implementation of the Basel 3.1 standards) may, however, place a limit on the regulatory capital benefits that the Regulatory Group may derive from using its own internal models relative to the standardised approach.

If the Regulatory Group fails to achieve, or there is a delay in achieving, internal ratings based accreditation of its internal models for its buy to let mortgage portfolios for any reason, it may be difficult for the Regulatory Group to improve its capital management capabilities and may result in the Regulatory Group being subject to less advantageous capital treatment arising as a result of proposed changes to the standardised approach. This may have a material adverse effect on, for instance, the pricing of its products, which could in turn have a material adverse effect on the Regulatory Group’s Common Equity Tier 1 Capital Ratio, business, capital position, financial condition, results of operations and/or prospects.

**5.19 *The Regulatory Group’s Common Equity Tier 1 Capital Ratio and, more generally, its overall capital position will be affected by the Group’s business decisions and, in making such decisions, the Group’s interests may not be aligned with those of the Holders***

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

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

The Issuer will determine the Regulatory Group’s Common Equity Tier 1 Capital and Risk Weighted Assets without applying any relevant transitional provisions then in effect under the Capital Regulations (unless the Capital Regulations otherwise require or permit (explicitly or without restricting) that such transitional provisions are applied for the purposes of determining whether a Trigger Event has occurred). As a result, the Regulatory Group’s Common Equity Tier 1 Capital Ratio may be lower than it would be if it were calculated applying any relevant transitional provisions.

As at 30 September 2025, the Regulatory Group's Common Equity Tier 1 Capital Ratio was 13.6 per cent. and the Regulatory Group's Total Capital Ratio was 15.3 per cent. The Issuer's interpretation of Capital Regulations and the basis of its determination of the Regulatory Group's Common Equity Tier 1 Capital Ratio may be different from those of other financial institutions. For more information on how this ratio is determined, see Note 57 and section A.4.3.1 of the Strategic Report entitled "Regulatory capital" on page 40 of the 2025 Audited Financial Statements, which are incorporated by reference in this Offering Circular. For the purposes of the Notes, the calculation by the Issuer of the Regulatory Group's Common Equity Tier 1 Capital Ratio (based on its interpretation of the Capital Regulations) at any time is binding on the Trustee and the Holders of the Notes.

The requirements relating to capital ratios in the Capital Regulations may change, including as a result of Basel 3.1, and/or changes to the way in which the PRA interprets and applies these requirements to UK banks and bank holding companies (including as regards individual model approvals granted by the PRA) and/or changes to the UK capital framework as a result of the UK's withdrawal from the European Union.

Regulatory initiatives may impact the calculation of the Regulatory Group's Risk Weighted Assets, being the denominator of the Common Equity Tier 1 Capital Ratio. For example, the Basel Committee has continued its post-crisis work on risk weighted assets and leverage reform. In December 2017, "*Basel III: Finalising post-crisis reforms*" was published, setting out the Basel Committee's finalisation of the Basel III framework (the "**BCBS package**"). Broadly, the finalised BCBS package aims to: (i) strengthen risk sensitivity and comparability in credit risk by adopting minimum "input" floors for certain metrics; (ii) introduce a standardised approach to credit valuation adjustment risk; (iii) introduce a standardised approach to operational risk; (iv) provide safeguards against unsustainable levels of leverage by adding a leverage ratio buffer for global systemically important banks; and (v) ensure that banks' "output" floors can be calculated as being 72.5 per cent. of total risk weighted assets. In the UK, the PRA published its final policy statement (PS1/26) on 20 January 2026, setting out the final PRA Rulebook instruments, supervisory statements, statements of policy, and the associated disclosure and reporting templates and instructions implementing the Basel 3.1 standards, with such rules to take effect on 1 January 2027. The updated rules affect existing approaches to calculation of risk weights and introduce new limits around the use of internal models to calculate risk weights. In particular, the rules introduce a floor on risk weighted assets that would require firms in scope of the output floor, with internal model permissions, to calculate risk weighted assets for the purposes of compliance with own funds requirements and buffers, as the higher of: (i) the total risk weighted assets calculated using all approaches that they have supervisory approval to use (including internal model approaches); and (ii) 72.5 per cent. of risk weighted assets calculated using only standardised approaches. With regards to the output floor transitional period, the PRA has confirmed the end-date of 31 December 2029, with the date of full implementation being 1 January 2030. Therefore, the transitional period will begin on 1 January 2027, with 60 per cent. of risk weighted assets as the initial floor, increasing by 5 per cent. each year until full implementation. On 20 January 2026, the PRA confirmed in its final policy statement (PS1/26) that there would be a delay in the introduction of the new internal model approach for market risk in the BCBS package until 1 January 2028. These proposals and resulting changes, either individually and/or in aggregate, may lead to further enhanced requirements in relation to the Regulatory Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

The calculation of the Common Equity Tier 1 Capital Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Accordingly, regulatory changes or accounting changes may have a material adverse impact on our calculations of regulatory capital, including Common Equity Tier 1 Capital and Risk Weighted Assets of the Regulatory Group, and its Common Equity Tier 1 Capital Ratio.

Therefore, any changes that may occur in the application of the regulatory framework described above subsequent to the date of this Offering Circular and/or any subsequent changes to such rules and other variables may individually and/or in the aggregate negatively affect the Regulatory Group's Common Equity Tier 1 Capital Ratio and thus increase the risk of a Trigger Event, which will lead to an Automatic Conversion, as a result of which a Holder could lose all or part of the value of its investment in the Notes.

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

Because a Trigger Event will only occur at a time when the Regulatory Group's Common Equity Tier 1 Capital Ratio has deteriorated significantly, a Trigger Event may be accompanied by a deterioration in the market price of the Issuer's ordinary shares, which may be expected to continue after the occurrence of the Trigger Event. Therefore, following a Trigger Event, the realisable value of the Conversion Shares may be below the Conversion Price. The Conversion Price is fixed at the time of issue of the Notes at £6.19 per Conversion Share, and is subject to certain anti-dilution adjustments, as described under "*Holders do not have anti-dilution protection in all circumstances*" below. As a result, the Conversion Price may not reflect the market price of ordinary shares of the Issuer, which could be significantly lower than the Conversion Price.

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

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

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

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

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

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

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

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

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

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

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

Following an Automatic Conversion, the Notes will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary. All obligations of the Issuer under the Notes shall be irrevocably and automatically released in consideration of the Issuer's issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient in accordance with the terms of the Notes) on the Conversion Date, and under no circumstances shall such released obligations be reinstated. The Notes shall be cancelled on the applicable Cancellation Date.

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

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

The Notes may cease to be admitted to trading on the ISM before or after the Suspension Date.

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

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

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

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

The number of Conversion Shares to be issued to the Conversion Shares Depositary upon an Automatic Conversion will be the aggregate principal amount of the Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date divided by the Conversion Price prevailing on the Conversion Date (rounded down to the nearest whole number of Conversion Shares). The Conversion Price will be adjusted by the Issuer or an Independent Financial Advisor acting on behalf of the Issuer if there is a consolidation, reclassification or subdivision of the Issuer's ordinary shares, an issuance of ordinary shares in certain circumstances by way of capitalisation of profits or reserves, a rights issue, an Extraordinary Dividend or a Qualifying Takeover Event (but only in the situations and only to the extent provided in Condition 9 (*Adjustments to the Conversion Price*)). There is no requirement that there should be an adjustment for every corporate or other event that may affect the market price of the Conversion Shares. Furthermore, the adjustment events that are included are less extensive than those often included in the terms of voluntarily convertible securities. Accordingly, the occurrence of events in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Notes.

**5.27 If a Takeover Event occurs, the Notes may be convertible into shares in an entity other than the Issuer**

If a Takeover Event is a Qualifying Takeover Event (and, on the Conversion Date, the shares of the Acquirer continue to be Approved Entity Shares), then following an Automatic Conversion the Notes shall become convertible or exchangeable into the Approved Entity Shares of the Acquirer at the New Conversion Price as provided under Condition 9(e) (*Qualifying Takeover Event*). There can be no assurance as to the nature of any such Acquirer, that shares designated as Approved Entity Shares will continue to be Approved Entity Shares on the Conversion Date (and as such, whether a Qualifying Takeover Event shall remain a Qualifying Takeover Event), or of the risks associated with becoming an actual or potential shareholder in such Acquirer and, accordingly, a Qualifying Takeover Event may have an adverse effect on the value of the Notes.

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

There can be no assurance that a Takeover Event will be a Qualifying Takeover Event or that the Acquirer's Shares will continue to be Approved Entity Shares after the Issuer has determined that a Qualifying Takeover Event has occurred.

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

In the case of a Takeover Event that is not a Qualifying Takeover Event (including if that is because the Acquirer is a Governmental Entity or because on the Conversion Date the Acquirer's Shares are not Approved Entity Shares), with effect from the occurrence of the Takeover Event (or the date on which

the Acquirer's Shares cease to be Approved Entity Shares) outstanding Notes shall not be subject to Automatic Conversion into shares of the Acquirer at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) (or where the Conversion Date occurs on or after the date of such Takeover Event) the Notes shall be converted into ordinary shares in the Issuer in accordance with Condition 8(a) (*Automatic Conversion on a Trigger Event*) as if no Takeover Event had occurred. If the Issuer's ordinary shares become delisted following a Takeover Event which is not a Qualifying Takeover Event or otherwise, there shall be no automatic adjustment to the terms of the Notes and the Notes will remain convertible into unlisted ordinary shares upon an Automatic Conversion. Unlisted shares may be more illiquid than listed shares and may have little or no resale value. Accordingly, a Takeover Event that is not a Qualifying Takeover Event is likely to have an adverse effect on Holders or the value of the Notes.

**5.28 *Holders may be subject to disclosure obligations, takeover requirements and/or may need approval from the Issuer's regulator under certain circumstances***

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

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

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

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

Any pecuniary and other rights with respect to Conversion Shares, in particular the entitlement to dividends shall only arise and the exercise of voting rights and certain other rights related to any Conversion Shares is only possible after the issue, registration and delivery of the Conversion Shares on the Conversion Date to the Conversion Shares Depository (or the relevant recipient) in accordance with the provisions of, and subject to the limitations provided in, the articles of association of the Issuer and under Condition 8 (*Automatic Conversion*). Prior to such issuance, registration and delivery, Holders will be subject to all changes made with respect to the Issuer's ordinary shares.

**5.30 *As a result of Holders receiving Conversion Shares upon the occurrence of a Trigger Event, they are particularly exposed to changes in the market price of the Issuer's ordinary shares and regulatory action by the Resolution Authority***

In general, investors in convertible or exchangeable securities may seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities.

Prospective investors in the Notes may look to sell ordinary shares of the Issuer in anticipation of taking a position in, or whilst holding, the Notes. This could drive down the price of the Issuer's ordinary shares. Since the Notes will mandatorily convert into Conversion Shares upon the occurrence of a Trigger Event, the price of the Issuer's ordinary shares may be more volatile if the Issuer is trending toward a Trigger Event.

In addition, any holders of Conversion Shares issued upon the occurrence of a Trigger Event will be subject to the powers of the Resolution Authority in respect of their holding of Conversion Shares – see “*The exercise by the Resolution Authority of a variety of statutory powers could materially adversely affect the value of the Notes*” below.

**5.31 *The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes***

The tools and powers described below are in addition to the operation of the Automatic Conversion upon the occurrence of a Trigger Event pursuant to the Conditions and could be exercised by the relevant authorities at any time if the relevant pre-conditions are met (including before a Trigger Event occurs).

- (i) *The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company such as the Issuer*

Under the Banking Act, substantial powers are granted to the relevant authorities in the UK as part of a special resolution regime (the “SRR”). These powers can be exercised, as applicable, by the relevant authorities in respect of a relevant entity (such as the Issuer), in circumstances in which the relevant authorities are satisfied that the relevant pre-conditions are met.

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 additional insolvency and administration procedures for relevant entities and for certain ancillary powers, such as the power to modify contractual arrangements in certain circumstances (which could include a variation of the terms of the Notes), powers to impose temporary suspension of payments, powers to suspend enforcement or termination rights that might be invoked as a result of the exercise of the resolution powers and powers for the 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.

There is a risk that such measures will be used in respect of the Issuer or Paragon Bank, and if such measures were used, they may have an impact on the Issuer's ability to make payments of interest and principal on the Notes, or may directly impact Holders' rights by transferring, cancelling or modifying the rights of Holders under the Notes or by writing down, bailing in or converting the Notes into equity, leading to the Holders losing some or all of the value of their investment in the Notes or being unable to receive interest or principal on the Notes.

Holders should assume that, in a resolution situation, public financial support will only be available to a relevant entity as a last resort after the relevant 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 adversely impact the Issuer's ability to fulfil its obligations under the Notes, materially adversely affect the value of any Notes and could lead to Holders losing some or all of the value of their investment in the Notes.

- (ii) *If the Issuer becomes subject to modified insolvency proceedings, Holders may lose all or some of their investment in the Notes*

As at the date of this Offering Circular, the resolution strategy for the Issuer set by the Bank of England is modified insolvency under Part 2 of the Banking Act. This is based on the Group having fewer than 40,000 to 80,000 'transactional accounts' (an account used at least nine times in the three months prior to an annual monitoring date), a balance sheet of less than £25 billion and the Group not providing critical functions which may justify the use of resolution tools. The failure of the Group is unlikely to cause disruption to the wider UK financial system. However, in accordance with the Bank of England's policy, the actual approach taken to resolve any institution will depend on the circumstances at the time of its failure. In addition, the Issuer's resolution strategy may change in the future.

Where the relevant statutory conditions for the commencement of modified insolvency proceedings under the Banking Act are met, the relevant UK resolution authority would be expected to apply to the court for the Issuer to enter modified insolvency under Part 2 of the Banking Act at the point of failure. If the Issuer is so liquidated, Holders may lose all or some of their investment in the Notes. See "*The Issuer is a holding company, so the Notes are structurally subordinated*" and "*The Notes will be subordinated to most of the Issuer's liabilities and the rights of any holders of Conversion Shares will be further subordinated*".

- (iii) *Resolution powers triggered prior to insolvency may not be anticipated and Holders may have only limited rights to challenge and/or seek a suspension or review of the exercise of such powers*

The resolution powers conferred by the SRR 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 resolution powers 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, it is uncertain how the relevant UK resolution authority would assess such conditions in any particular pre-insolvency scenario affecting the Issuer and/or other members of the Group and in deciding whether to exercise a resolution power.

The relevant UK resolution authority is also not required to provide any advance notice to Holders of its decision to exercise any resolution power. Therefore, Holders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer, the Group and the Notes. Furthermore, Holders may have only limited rights to challenge and/or seek a suspension of any decision of the relevant UK resolution authority to exercise its resolution powers (including the bail-in tool) or to have that decision reviewed by a judicial or administrative process or otherwise.

- (iv) *A partial transfer of the Issuer's business may result in a deterioration of its creditworthiness*

If the Issuer or any member of the Group was made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it may be unable to make payments in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Holders may have a claim for

compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Holders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

Where the relevant statutory conditions for use of the bail-in tool have been met, the resolution authority could elect to exercise the bail-in tool and in doing so, it would be expected to exercise these powers without the consent of the Holders. The Banking Act specifies the order in which the bail-in tool should be applied reflecting the hierarchy of capital instruments under applicable UK legislation and rules and otherwise respecting the hierarchy of claims in an ordinary insolvency. 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 nominal amount of, interest on, or any other amounts payable on, the Notes and/or the conversion of the Notes into shares or other notes or other obligations of the Issuer or another person, or any other modification or variation to the terms of the Notes.

The exercise of the bail-in tool in respect of the Issuer and the Notes or any suggestion of any such exercise could materially adversely affect the rights of the Holders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and could lead to Holders losing some or all of the value of their investment in such Notes. The bail-in tool contains an express safeguard (known as ‘no creditor worse off’) with the aim that shareholders and creditors do not receive a less favourable treatment than they would have received in ordinary insolvency proceedings under Part 2 of the Banking Act. However, even in circumstances where a claim for compensation is established under the ‘no creditor worse off’ safeguard in accordance with a valuation performed after the resolution action has been taken, it is unlikely that such compensation would be equivalent to the full losses incurred by the Holders in the resolution and there can be no assurance that Holders would recover such compensation promptly.

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

In addition to the powers granted under the SRR (as described under the risk factor titled “*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. In certain circumstances, such actions may also be taken against a UK banking group company such as the Issuer*” above), the Banking Act grants the power to the Bank of England (or any successor or replacement thereto and/or such other authority in the United Kingdom with the ability to exercise a UK resolution power) (the “**resolution authority**”) to cancel, transfer or dilute any common equity tier 1 instruments, and to permanently write-down, or convert into equity, any additional tier 1 capital instruments (such as the Notes), tier 2 capital instruments and internal eligible liabilities, at the point of non-viability of a relevant entity (such as the Issuer) (a “**relevant entity**”) and before, or together with, the exercise of any resolution powers conferred by the SRR (except in the case where the bail-in tool is to be utilised for other liabilities, in which case such capital instrument or internal eligible liabilities would be cancelled, 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).

For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the resolution authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity will no longer be viable unless the relevant capital instruments or internal eligible liabilities are written down or

converted or the relevant entity requires extraordinary public support without which the resolution authority determines that the relevant entity would no longer be viable.

Notwithstanding that the resolution strategy for the Issuer is modified insolvency, Holders of the Notes may be subject to write-down or conversion into equity on application of mandatory write-down and conversion powers (without requiring the consent of such Holders), which may result in such Holders losing some or all of their investment. The “no creditor worse off” safeguard would not apply in relation to an application of such powers to capital instruments (such as the Notes) 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 such Notes and/or the ability of the Issuer to satisfy its obligations under such Notes. See “*The Issuer is a holding company, so the Notes are structurally subordinated*” for a description of the rights of the Issuer to participate in the assets of its subsidiaries and the effect of the exercise of such mandatory write-down and conversion power in respect of such subsidiaries.

### **5.32 *Holders agree to be bound by the exercise of any UK Bail-in Power by the Resolution Authority***

In recognition of the resolution powers granted by law to the Resolution Authority, by acquiring the Notes, each Holder acknowledges and accepts that the Amounts Due arising under the Notes may be subject to the exercise of the UK Bail-in Power and acknowledges, accepts, consents and agrees to be bound by the effect of the exercise of any UK Bail-in Power by the Resolution Authority, that may result in (i) the reduction of all, or a portion, of the Amounts Due; (ii) the conversion of all, or a portion, of the Amounts Due on the Notes into shares or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes; (iii) the cancellation of the Notes; (iv) the amendment of the amount of interest that may be payable on the Notes, or the dates on which interest may become payable, including by suspending payment for a temporary period. Each Holder further acknowledges, accepts, consents and agrees to be bound by the variation of the terms of the Notes, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

Accordingly, the UK Bail-in Power may be exercised in such a manner as to result in Holders losing all or a part of the value of their investment in the Notes or receiving a different security from the Notes, which may be worth significantly less than the Notes and which may have significantly fewer protections than those typically afforded to debt securities. Moreover, the Resolution Authority may exercise the UK Bail-in Power without providing any advance notice to, or requiring the consent of, the Holders. In addition, under the Conditions, the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Notes is not an event of default. See also “*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*” above.

### **5.33 *Limited gross-up obligation in respect of the Notes***

Pursuant to the Conditions, the Issuer’s obligation to pay additional amounts on the Notes in respect of any withholding or deduction in any Relevant Jurisdiction applies only to payments of interest on the Notes and not to payments of principal in respect of the Notes. As such, the Issuer would not be required to pay any additional amounts to the extent any such withholding or deduction is applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal in respect of any Notes, Holders shall only be entitled to the net amount of such payment after deduction of the amount required to be withheld or deducted. The market value of such Notes may be adversely affected as a result.

### **5.34 *Credit ratings may not reflect all risks***

The Notes are expected to be rated Ba2 by Moody's and BB by Fitch. 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 any credit rating that may be assigned to the Notes may be subject to suspension, change or withdrawal at any time by the credit rating agency.

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

If the Issuer determines to no longer maintain one or more ratings, or if any credit rating agency withdraws, suspends or downgrades the credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), whether as a result of the factors described above or otherwise, such event could adversely affect the liquidity or market value or index eligibility of the Notes (whether or not the Notes had an assigned rating prior to such event). Moreover, any decision by a credit rating agency to assign a new rating to the Issuer and/or, if applicable, the Notes (be it solicited or unsolicited), may adversely affect the liquidity, market value or index eligibility of the Notes (whether or not the Notes had an assigned rating prior to such event).

Furthermore, as a result of the EU CRA Regulation, if the status of a rating agency rating the Notes changes or the rating is not endorsed by a credit rating agency registered under the EU CRA Regulation, European regulated investors may no longer be able to use the rating for regulatory purposes. Similarly and as a result of the UK CRA Regulation, if the status of a rating agency rating the Notes changes or the rating is not endorsed by a credit rating agency registered under the UK CRA Regulation, UK regulated investors may no longer be able to use a rating for regulatory purposes. In both cases, any such change could cause the Notes to be subject to different regulatory treatment. This may result in such European regulated investors or UK regulated investors, as applicable, selling the Notes, which may impact the value of the Notes and any secondary market.

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

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

**5.36 *The value of the Notes could be adversely affected by a change in English law or administrative practice***

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the 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 Tax Event or a Capital Disqualification Event would entitle the Issuer, at its option (subject to, amongst other things, receipt of the prior permission of the PRA (if such consent is then required by the prevailing prudential requirements)), to redeem, substitute or vary the Notes, in whole but not in part, as provided under Condition 7(c) (*Redemption for regulatory reasons*) or Condition 7(d) (*Redemption for tax reasons*) or Condition 7(f) (*Substitution or Variation*), as the case may be, and Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*).

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.

The changes following the implementation of the BCBS package in the UK may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Notes. Investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences for and effect on them of any changes to the Basel framework (including the changes described above) and the relevant implementing measures.

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny (for example, the enactment in the UK of the Financial Services and Markets Act 2023 and the Retained EU Law (Revocation and Reform) Act 2023) 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. See also "*The exercise by the relevant resolution authority of a variety of statutory powers could materially adversely affect the value of the Notes*".

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

The Notes are new securities for which no active trading market may develop. 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 trading on the ISM, there is no assurance that such application will be accepted or that an active trading market will develop. Even if an active trading market does develop, it may not be liquid and may not continue for the term of the Notes. In addition, liquidity may be limited if large allocations of the Notes are made to a limited number of investors. There can be no assurance that events in the United Kingdom or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect on the Notes.

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

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

Holders of beneficial interests in the Global Certificate 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.

**5.39 *Minimum Denomination***

As the Notes will have a minimum denomination of £200,000 and integral multiples of £1,000 in excess thereof, it is possible that the Notes may be traded in amounts in excess of £200,000 (or its equivalent) that are not integral multiples of £200,000 (or its equivalent). In such case a Holder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Certificate in respect of such holding (should Individual Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination. Further, a Holder who, as a result of trading such amounts, holds an amount which is less than the minimum denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes such that its holding amounts to the minimum denomination.

**5.40 *The Trust Deed will contain provisions which may permit modification of the Notes without the consent of all Holders and confer significant discretions on the Trustee which may be exercised without the consent of the Holders and without regard to the individual interests of particular Holders, including the substitution of the Issuer***

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number).

The Trust Deed will contain 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. See also “*Substitution or Variation of the Notes upon the Occurrence of a Capital Disqualification Event or a Tax Event*”.

The Conditions also provide that (subject to prior notice or consent of the PRA (if so required by the Capital Regulations), which is not revoked by the relevant date of modification or waiver) the Trustee

may subject as provided in the Trust Deed, without the consent of Holders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes and to the substitution of the Issuer.

Furthermore, the Trustee may, without the consent of the Holders but subject to PRA Permission (which is not revoked by the relevant substitution date) and other conditions set out in Condition 15(f) (*Substitution of the Issuer*), agree with the Issuer the substitution in place of the Issuer (or of any previous substitute) as principal debtor under the Notes of any Subsidiary of the Issuer.

No assurance can be given as to the impact of any such modifications, amendments, waivers or substitution of the Issuer as described above or whether any such modification, amendments, waivers or substitution could materially adversely impact the value of the Notes.

#### **5.41 Exchange rate risks and exchange controls**

The Issuer will pay principal and interest on the Notes in pounds sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to pounds sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of payments on the Notes, and (3) the Investor's Currency equivalent market value of the Notes.

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

## TERMS AND CONDITIONS OF THE NOTES

*The following (other than the italicised text) 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 7.500 per cent. Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes (the “**Notes**”, which expression shall in these Conditions, unless the context otherwise requires, include any further Notes issued pursuant to Condition 17 (*Further Issues*) which are consolidated and form a single series with the Notes) of Paragon Banking Group PLC (the “**Issuer**”) are constituted by a trust deed dated 5 February 2026 (as amended and/or restated and/or supplemented from time to time, the “**Trust Deed**”) made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include all persons from time to time being trustee or trustees appointed under the Trust Deed) as trustee for the Holders.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 5 February 2026 (as amended and/or restated and/or supplemented from time to time, the “**Agency Agreement**”) made between the Issuer, the Principal Paying Agent, the Registrar, the other Agents party thereto and the Trustee (i) are available for inspection during normal business hours by prior arrangement by the Holders at the registered office for the time being of the Trustee or (ii) may be provided by email to a Holder following its prior written request to the Trustee or the Principal Paying Agent, in each case upon provision of proof of holding of Notes and identity (in a form satisfactory to the Trustee or the Principal Paying Agent, as applicable). The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

### 1 Form, Denomination and Title

#### (a) *Form and Denomination*

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

The Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(a) (*Transfer of Notes*), each Certificate shall represent the entire holding of Notes by the same Holder. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register (as defined below).

#### (b) *Title*

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

### 2 Transfer of Notes

#### (a) *Transfer of Notes*

One or more Notes may, subject to Condition 2(d) (*Closed Periods*), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Notes

to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require; **provided, however, that** a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. A new Certificate shall be issued to the transferee in respect of the Notes the subject of the relevant transfer and, in the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate in respect of the balance of the Notes not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Trust Deed. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Holder upon request.

(b) *Delivery of New Certificates*

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

(c) *Transfers Free of Charge*

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

(d) *Closed Periods*

No Holder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the date fixed for redemption of the Notes pursuant to Condition 7 (*Redemption and Purchase; Substitution and Variation*), (ii) at any time after the second Business Day following the giving of an Automatic Conversion Notice by the Issuer or (iii) during the period of seven days ending on (and including) any Record Date.

### 3 Status

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of a Winding Up or an Administration, the rights and

claims of the Holders in respect of or arising from the Notes (including any damages awarded for breach of obligations in respect thereof (if payable)) are subordinated to the claims of Senior Creditors as described in Condition 4 (*Subordination*).

#### 4 Subordination

(a) *Solvency Condition*

Except in a Winding Up or an Administration and subject to the right or obligation of the Issuer to cancel payments under Condition 5(a) (*Cancellation of interest*) and the provisions of Condition 8 (*Automatic Conversion*), all payments in respect of or arising from (including any damages awarded for breach of any obligation under) the Notes are conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of or arising from the Notes (and any such payments will be deemed cancelled) except to the extent that the Issuer could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

In these Conditions, the Issuer shall be considered to be solvent at a particular time if (x) the Issuer is able to pay its debts to its Senior Creditors as they fall due and (y) the Balance Sheet Condition is met at that time.

The “**Balance Sheet Condition**” shall be satisfied in relation to the Issuer if the value of its assets is at least equal to the value of its liabilities (taking into account its contingent and prospective liabilities), calculated in each case on an unconsolidated basis and according to the criteria that would be applied by the High Court of Justice of England and Wales (or the relevant authority of such other jurisdiction in which the Issuer may be organised) in determining whether the Issuer is “unable to pay its debts” under section 123(2) of the Insolvency Act or any amendment or re-enactment thereof (or in accordance with the corresponding provisions of the applicable laws of such other jurisdiction in which the Issuer may be organised).

A certificate as to the solvency of the Issuer signed by two Authorised Signatories shall be treated and accepted by the Trustee and the Holders as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further investigation and without liability to any person.

Any payment of interest not due by reason of this Condition 4(a) (*Solvency Condition*) shall be deemed cancelled as provided in Condition 5(a) (*Cancellation of interest*).

(b) *Winding Up or Administration occurring prior to a Trigger Event*

If:

- (i) an order is made, or an effective resolution is passed, for the winding up of the Issuer (except, in any such case, a solvent winding up solely for the purposes of a reconstruction, amalgamation, reorganisation, merger or consolidation on terms previously approved by the Trustee or by an Extraordinary Resolution) (a “**Winding Up**”); or
- (ii) an administrator has been appointed in respect of the Issuer and gives notice that it intends to declare and distribute a dividend (an “**Administration**”),

prior to the occurrence of a Trigger Event, there shall be payable by the Issuer in respect of each Note (in lieu of any other payment by the Issuer, but subject as provided in this Condition 4(b) (*Winding Up or Administration occurring prior to a Trigger Event*)), such amount, if any, as would have been payable to the Holder of such Note if, on the day prior to the commencement of the Winding Up or Administration

and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) ranking *pari passu* as to a return of assets on a Winding Up or an Administration with the holders of the most senior class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in the Winding Up or Administration over, and so rank ahead of, all other classes of issued shares for the time being in the capital of the Issuer, but ranking junior to the claims of Senior Creditors, on the assumption that such Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such Winding Up or Administration an amount equal to the principal amount of the relevant Note and any accrued but unpaid interest thereon (provided not otherwise cancelled in accordance with these Conditions) and any damages awarded for breach of any obligations in respect of such Note, whether or not the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable (and, in the case of an Administration, on the assumption that such preference shareholders were entitled to claim and recover in respect of their preference shares to the same degree as in a Winding Up).

(c) *Winding Up or Administration occurring together with or after the occurrence of a Trigger Event*

If a Winding Up or an Administration occurs on or after the date on which a Trigger Event occurs but before the Conversion Date, then for the purposes of determining the claim of a Holder in such Winding Up or Administration, the Conversion Date in respect of an Automatic Conversion shall be deemed to have occurred immediately before the occurrence of such Winding Up or Administration and, accordingly, as if such Holder were, throughout such Winding Up or Administration, the holder of such number of the Issuer's ordinary shares as it would have been entitled to receive upon Automatic Conversion (ignoring for this purpose the Issuer's right to make an election for a Conversion Shares Offer to be effected pursuant to Condition 8(d) (*Automatic Conversion – Conversion Shares Offer*), whether or not the Solvency Condition is satisfied on such date (and, in the case of an Administration, on the assumption that shareholders were entitled to claim and recover in respect of their ordinary shares to the same degree as in a winding up or liquidation).

(d) *No set-off*

Subject to applicable law, no Holder may exercise or claim or plead any right of set-off, compensation, counterclaim, retention or netting in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Notes or the Trust Deed and each Holder will, by virtue of their holding of any Note (or any beneficial interest therein), be deemed, to the fullest extent permitted by applicable law, to have waived all such rights of set-off, compensation, counterclaim, retention and netting. Notwithstanding the preceding sentence, if any of the amounts due and payable to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, compensation, counterclaim, retention or netting, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of a Winding Up or an Administration, 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.

*Condition 4(d) shall not be construed as indicating or acknowledging that any rights of set-off, compensation, counterclaim, retention or netting would, but for Condition 4(d), otherwise be available to any Holder with respect to any Notes.*

(e) *Effect on the Trustee*

As stated in further detail in Condition 16(e) (*Trustee's remuneration, liability etc*), the provisions of this Condition 4 (*Subordination*) apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in this Condition 4 (*Subordination*) or Condition 12 (*Enforcement Events and Remedies*) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

## 5 Interest

(a) *Cancellation of interest*

(i) *Mandatory cancellation of interest- insufficient Distributable Items*

The Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that such Interest Amount (or part thereof), when aggregated together with (A) all distributions or interest payments which have been made or declared by the Issuer since the end of the last financial year or which are required to be paid or made during the then current financial year on or in respect of any Parity Securities, the Notes and any Junior Securities and (B) all distributions or interest payments payable by the Issuer (and not cancelled) on such Interest Payment Date (x) on the Notes and (y) on or in respect of any Parity Securities or any Junior Securities (without double counting and excluding any such distributions or interest payments which have already been provided for, by way of deduction, in calculating the amount of Distributable Items), exceeds the amount of the Distributable Items of the Issuer as at such Interest Payment Date.

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

(ii) *Mandatory cancellation of interest – Maximum Distributable Amount*

To the extent required under the then prevailing Capital Regulations, the Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that payment of such Interest Amount (or part thereof) would cause, when aggregated together with other distributions of the kind referred to in Rule 4.3(2) of chapter 4 of the “*CRR Firms – Capital Buffers*” part of the PRA Rulebook (“**Chapter 4**”) (or any succeeding or analogous rules amending or replacing such rule), the Maximum Distributable Amount (if any) then applicable to the Regulatory Group to be exceeded. “**Maximum Distributable Amount**” means any applicable maximum distributable amount relating to the Regulatory Group required to be calculated in accordance with Chapter 4 (or any succeeding or analogous Capital Regulations amending or replacing such chapter) or in accordance with any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Regulatory Group is failing to meet any applicable requirement or any buffers relating to such requirement. The Issuer shall be responsible for determining compliance with the restrictions above and neither the Trustee nor any Agent shall be required to monitor such compliance or to perform any calculations in connection therewith.

(iii) *Mandatory cancellation of interest – PRA order*

The Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that the PRA orders the Issuer to cancel such payment.

(iv) *Mandatory cancellation of interest – Solvency Condition*

The Issuer shall not pay any Interest Amount (or part thereof) on an Interest Payment Date and such Interest Amount (or part thereof) will be cancelled if and to the extent that the Solvency Condition is not satisfied on the relevant Interest Payment Date.

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

(v) *Discretionary cancellation of interest*

Interest on the Notes is due and payable only at the sole discretion of the Issuer. In addition and subject to the mandatory non-payment of interest pursuant to Condition 4(a) (*Solvency Condition*), the foregoing provisions of this Condition 5(a) (*Cancellation of interest*) and Condition 8 (*Automatic Conversion*), the Issuer may at any time and for any reason elect at its full and absolute discretion to cancel (in whole or in part) the Interest Amount that would otherwise be payable on any Interest Payment Date.

(vi) *Non-payment of interest sufficient evidence of cancellation*

If the Issuer does not pay an Interest Amount (or part thereof) on the relevant Interest Payment Date, such non-payment shall evidence either the non-payment and cancellation of such Interest Amount (or relevant part thereof) by reason of it not being due in accordance with Condition 4(a) (*Solvency Condition*), the mandatory cancellation of such Interest Amount (or relevant part thereof) in accordance with this Condition 5(a) (*Cancellation of interest*) or with Condition 8 (*Automatic Conversion*) or, as appropriate, the Issuer's exercise of its discretion to cancel such Interest Amount (or relevant part thereof) in accordance with Condition 5(a)(v) (*Discretionary cancellation of interest*), and accordingly such interest shall not in any such case be due and payable.

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

(vii) *Notice of cancellation of interest*

The Issuer shall provide notice of any cancellation of an Interest Amount (or part thereof) to the Holders (in accordance with Condition 14 (*Notices*)), the Trustee and the Agents as soon as possible. If practicable, the Issuer shall endeavour to provide such notice at least five Business Days prior to the relevant Interest Payment Date. Any delay in giving or failure to provide such notice shall not affect the cancellation of any Interest Amount (or any part thereof) by the Issuer and shall not constitute a default for any purpose.

(viii) *Interest non-cumulative*

The non-payment or cancellation of any Interest Amount (or any part thereof) in accordance with Condition 4(a) (*Solvency Condition*), this Condition 5(a) (*Cancellation of interest*) or Condition 8 (*Automatic Conversion*) shall not constitute a default for any purpose (including, without limitation, Condition 12 (*Enforcement Events and Remedies*)) on the part of the Issuer. Interest payments cancelled or not made shall not be due and shall not be payable at any time thereafter and thus are non-cumulative. Holders shall have no right to any cancelled (or unpaid) Interest Amount or to receive any additional interest or compensation as a result of such cancellation or non-payment, whether under the Notes or the Trust Deed, on a Winding Up, an Administration or otherwise. The Issuer may use such cancelled payments without restriction to meet its obligations as they fall due and the cancellation of any Interest Amount (or part thereof) will not impose any restrictions on the Issuer nor prevent or restrict the Issuer from declaring or making any distributions or interest payments on any of its shares or other instruments or obligations.

(b) *Interest Rate and Interest Payment Dates*

The Notes bear interest on their outstanding principal amount:

- (i) from and including the Issue Date to but excluding 5 August 2033 (the “**First Reset Date**”), at the rate of 7.500 per cent. per annum (the “**Initial Interest Rate**”); and
- (ii) thereafter, in respect of each Reset Period, at the relevant Reset Interest Rate,

which interest is, in each case, payable, subject to Conditions 4(a) (*Solvency Condition*), 5(a) (*Cancellation of interest*) and 8 (*Automatic Conversion*), semi-annually in arrear on 5 February and 5 August of each year (each an “**Interest Payment Date**”). The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an “**Interest Period**”.

(c) *Calculation of interest*

Interest in respect of any Note shall be calculated per Calculation Amount. Subject to the paragraph below, the amount of interest payable (subject to Conditions 4(a) (*Solvency Condition*), 5(a) (*Cancellation of interest*) and 8 (*Automatic Conversion*)) in respect of a Note for any period of time shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day Count Fraction for the relevant period, (ii) rounding the resultant figure to the nearest penny (half a penny being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the principal amount of such Note and the denominator of which is the Calculation Amount.

(d) *Reset Interest Rate*

The “**Reset Interest Rate**” in respect of any Reset Period will be the rate of interest determined by the Agent Bank on the relevant Reset Determination Date as the sum of:

- (i) the relevant Reset Reference Rate; and
- (ii) the Margin,

with such sum, if necessary, converted by the Agent Bank to a semi-annual rate in accordance with market convention as instructed by the Issuer (rounded to three decimal places, with 0.0005 rounded down).

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

“**Margin**” means 3.198 per cent. per annum;

“**Reset Date**” means the First Reset Date and each fifth anniversary date thereafter;

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

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

“**Reset Reference Banks**” means five brokers of gilts and/or gilt-edged market makers as selected by the Issuer and notified in writing to the Agent Bank;

“**Reset Reference Rate**” means, in respect of a Reset Period, the percentage rate (rounded, if necessary to three decimal places, with 0.0005 rounded upwards) determined by the Agent Bank on the basis of the Gilt Yield Quotations provided (upon request by or on behalf of the Issuer) by the Reset Reference Banks to the Issuer and by the Issuer to the Agent Bank at approximately 11:00 a.m. (London time) on the Reset Determination Date in respect of such Reset Period. If at least four quotations are provided, the Reset Reference 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 or three quotations are provided, the Reset Reference Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Rate will be the quotation provided. If no quotations are provided, the Reset Reference Rate will be deemed to be equal to the Reset Reference Rate determined for the immediately preceding Reset Period or, in the case of the first Reset Period, 4.058 per cent.

Where:

“**Benchmark Gilt**” means, with respect to a Reset Period, the security or securities issued by the United Kingdom government selected by the Issuer (after consultation with an investment bank or financial institution of international repute determined to be appropriate by the Issuer) as having the nearest actual or interpolated maturity comparable with that Reset Period and that (in the opinion of the Issuer) would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issuances of corporate debt securities denominated in sterling and of a comparable maturity to that Reset Period; and

“**Gilt Yield Quotations**” means, with respect to a Reset Reference Bank and a Reset Period, the arithmetic mean of the bid and offered yields (on a semi-annual compounding basis) for the Benchmark Gilt in respect of that Reset Period, expressed as a percentage, as quoted by such Reset Reference Bank.

(e) *Determination and publication of Reset Interest Rate*

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date, determine the Reset Interest Rate in respect of the relevant Reset Period. The determination of the applicable Reset Interest Rate by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

The Issuer shall cause the Agent Bank to give notice of the relevant Reset Interest Rate to the Issuer, the Agents, the Trustee and to any stock exchange on which the Notes are at the relevant time listed or admitted to trading or other relevant authority to the extent so required by the relevant rules (by no later

than the relevant Reset Determination Date) and to be notified to Holders in accordance with Condition 14 (*Notices*) as soon as possible after its determination, but in no event later than the fourth Business Day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

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

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5 (*Interest*), whether from or by the Reset Reference Banks (or any of them) or the Agent Bank or the Issuer or any agent appointed by the Issuer, will (in the absence of manifest error) be binding on the Issuer, the Trustee, the Agent Bank and all Holders and (in the absence of wilful default) no liability to the Issuer or the Holders shall attach to the Reset Reference Banks (or any of them) in connection with any such quotations or the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

(g) *Interest accrual*

Without prejudice to Conditions 4(a) (*Solvency Condition*), 5 (*Interest*) and 8 (*Automatic Conversion*), each Note will cease to bear interest from and including its date fixed for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue in accordance with, and subject to, the Conditions (both before and after judgment) until whichever is the earlier of (a) the day on which such principal is received by or on behalf of the relevant Holder and (b) the day which is seven days after any of the Agents or the Trustee has notified the Holders that it has received such principal.

## 6 Payments

(a) *Principal*

Payments of principal shall be made to the person shown in the Register at the close of business on the Record Date by transfer to a sterling account maintained by the payee with, a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the specified office of any Paying Agent.

(b) *Interest*

Payments of interest shall be made to the person shown in the Register at the close of business on the Record Date by transfer to a sterling account maintained by the payee with, a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the specified office of any Paying Agent.

(c) *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.

(d) *Payment on Business Days*

Payment instructions (for value the relevant Interest Payment Date or the date fixed for redemption (if any), as the case may be, or, if such date is not a payment business day, for value the next succeeding payment business day) will be initiated (i) (in the case of payments of principal and interest payable on

redemption) on the later of the date fixed for redemption and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the specified office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the relevant Interest Payment Date. A Holder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the date fixed for redemption or the relevant Interest Payment Date not being a payment business day. In this Condition 6(d) (*Payment on Business Days*), “**payment business day**” means any day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*

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

(f) *Record date*

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s specified office on the fifteenth day before the relevant date fixed for redemption (if any) or the relevant Interest Payment Date (the “**Record Date**”).

(g) *Agents*

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

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

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

## 7 **Redemption and Purchase; Substitution and Variation**

(a) *No fixed redemption date*

The Notes are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem or purchase them in accordance with the following provisions of this Condition 7 (*Redemption and Purchase; Substitution and Variation*). The Issuer shall not be entitled to deliver a notice of redemption at any time after a Trigger Event has occurred.

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

The Issuer may, in its sole discretion but subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), having given not less than 15 nor more than 30 days' notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee and the Agents (which notice shall, subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on (i) any date from (and including) 5 February 2033 to (and including) the First Reset Date or (ii) any date from (and including) the date falling six months prior to any subsequent Reset Date to (and including) such Reset Date, in each case, at their principal amount together with any Accrued Interest.

(c) *Redemption for regulatory reasons*

Subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), if, as a result of any amendment to, or change in the regulatory classification of the Notes under, the Capital Regulations (or official interpretation thereof), in any such case becoming effective on or after the Reference Date, the whole or any part of the principal amount of the Notes is, or is likely to be at any time, excluded from, or cease to count towards, the Tier 1 Capital of the Regulatory Group (a "**Capital Disqualification Event**"), the Issuer may, in its sole discretion but having given not less than 15 nor more than 30 days' notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee and the Agents (which notice shall, subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on any date at their principal amount together with any Accrued Interest.

Prior to giving notice of redemption in accordance with this Condition 7(c) (*Redemption for regulatory reasons*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the relevant circumstance referred to this Condition 7(c) (*Redemption for regulatory reasons*) exists. Such certificate shall be treated by the Trustee, the Holders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further investigation and without liability to any person.

(d) *Redemption for tax reasons*

Subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), if as a result of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which the Relevant Jurisdiction is a party, or a change in an official application of those laws or regulations which change or amendment becomes effective on or after the Reference Date, including a decision of any court or tribunal which becomes effective on or after the Reference Date:

- (i) the Issuer has paid, or will or would on the next Interest Payment Date be required to pay, Additional Amounts in respect of the Notes; or
- (ii) the Issuer is not or would not be entitled to claim a deduction in computing its taxable profits and losses in respect of interest payable on the Notes, or such a deduction is or would be reduced or deferred; 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 Reference Date or any similar system or systems having like effect as may from time to time exist); or

- (iv) the Issuer would be required to bring into account any amount of income, profit or gain or other tax credit or taxable item for tax purposes, or any other liability to tax would arise in respect of the write-down of the Notes, the conversion of the Notes into shares, or both (including, pursuant to these Conditions or as a result of the exercise of any regulatory powers under the Banking Act 2009); or
- (v) the Notes are not or would not be treated as “normal commercial loans” for the purposes of Chapter 6 of Part 5 of the Corporation Tax Act 2010; or
- (vi) the Notes or any part thereof are or would become treated as a derivative or embedded derivative for tax purposes; or
- (vii) the Issuer suffers or would suffer any other material adverse tax consequence in connection with the Notes,

(each, a “**Tax Event**”), the Issuer may, in its sole discretion but subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), having given not less than 15 nor more than 30 days’ notice to Holders in accordance with Condition 14 (*Notices*), the Trustee and the Agents (which notice shall, subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on any date at an amount equal to their principal amount together with any Accrued Interest.

Prior to giving notice of redemption in accordance with this Condition 7(d) (*Redemption for tax reasons*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the relevant circumstance referred to in this Condition 7(d) (*Redemption for tax reasons*) exists. Such certificate shall be treated by the Trustee and the Holders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further investigation and without liability to any person.

(e) *Clean-up Call Option*

If, at any time, the outstanding aggregate principal amount of the Notes is 25 per cent. or less of the aggregate principal amount of the Notes originally issued (and, for these purposes, any further Notes issued pursuant to Condition 17 (*Further Issues*) and consolidated and forming a single series with the Notes shall be deemed to have been originally issued) (the “**Clean-up Call Threshold**”), the Issuer may, in its sole discretion but subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), having given not less than 15 nor more than 30 days’ notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee and the Agents (which notice shall, subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the remaining outstanding Notes on any date at an amount equal to their principal amount together with any Accrued Interest.

Prior to giving notice of redemption in accordance with this Condition 7(e) (*Clean-up Call Option*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the outstanding aggregate principal amount of the Notes is equal to or less than the Clean-up Call Threshold. Such certificate shall be treated by the Trustee and the Holders and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further investigation and without liability to any person.

(f) *Substitution or Variation*

If at any time a Capital Disqualification Event or a Tax Event occurs, the Issuer may, subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*) and having given not less than 15 nor more than 30 days' notice to the Holders (in accordance with Condition 14 (*Notices*)), the Trustee and the Agents (which notice shall, subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*)), be irrevocable) but without any requirement for the consent or approval of the Holders, at any time either substitute all (but not some only) of the Notes for, or vary the terms of the Notes and/or the terms of the Trust Deed so that the Notes remain (or, as appropriate, become) Qualifying Additional Tier 1 Notes.

The Trustee shall be obliged (at the request and expense of the Issuer) to agree with the Issuer without the consent of the Holders to any substitution of the Notes for, or the variation of the terms of the Notes and/or the terms of the Trust Deed so that the Notes remain (or, as appropriate, become) Qualifying Additional Tier 1 Notes as aforesaid, provided that (i) the Trustee receives the certificate in the form described in the definition of Qualifying Additional Tier 1 Notes in accordance with the provisions thereof, and (ii) the terms of the proposed Qualifying Additional Tier 1 Notes, the amended terms of the Trust Deed or the agreement to such substitution or variation, as the case may be, would not, in the Trustee's opinion (acting reasonably), impose more onerous obligations upon it or expose it to any additional liabilities, responsibilities or duties or reduce or amend the rights and/or protections afforded to it.

(g) *Purchases*

The Issuer or any of its Subsidiaries may, at its option but subject to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*), 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 Capital Regulations. All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, surrendered to the Registrar for cancellation.

(h) *Conditions to redemption, purchase, substitution and variation*

Any redemption under Conditions 7(b) (*Redemption at the option of the Issuer*), 7(c) (*Redemption for regulatory reasons*), 7(d) (*Redemption for tax reasons*), 7(e) (*Clean-up Call Option*) or purchase under Condition 7(g) (*Purchases*) or substitution or variation under Condition 7(f) (*Substitution or Variation*) is subject to the Issuer obtaining PRA Permission (and such PRA Permission not having been revoked by the relevant date of such redemption, purchase, substitution or variation, as the case may be) and to compliance with the Regulatory Preconditions and/or any other additional and/or alternative conditions or requirements contained in the then prevailing Capital Regulations which relate to the redemption, purchase, substitution or variation of the Notes, as the case may be.

In addition, if the Issuer has elected to redeem, purchase, substitute or vary the Notes and:

- (i) prior to the redemption, purchase, substitution or variation (as applicable) a Trigger Event occurs;  
or
- (ii) in the case of a redemption or purchase, the Solvency Condition is not satisfied in respect of the relevant payment on any date fixed for redemption or purchase,

the relevant redemption, substitution or variation notice (as applicable) or, as the case may be, the relevant purchase agreement, shall be automatically rescinded and shall be of no force and effect and no

payment of any redemption amount or purchase price will be due and payable or no substitution or variation shall occur (as the case may be).

In the case of (i) above, the Automatic Conversion shall occur in accordance with Condition 8 (*Automatic Conversion*). In the case of (ii) above, the Issuer shall give notice thereof to the Holders (in accordance with Condition 14 (*Notices*)), the Trustee and the Agents as soon as practicable. Any delay in giving, or failure to provide, such notice shall not have any impact on the effectiveness of, or otherwise invalidate, any such rescission.

Any refusal by the PRA to give any PRA Permission as contemplated above (or any subsequent revocation of such PRA Permission by the PRA) shall not constitute a default for any purpose.

(i) *Cancellation*

All Notes which are redeemed by the Issuer pursuant to this Condition 7 (*Redemption and Purchase; Substitution and Variation*) will be cancelled. All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries and surrendered for cancellation to the Registrar, will be cancelled. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be permanently and irrevocably discharged.

(j) *Notices final*

Upon the expiry of any notice as is referred to in Condition 7(b) (*Redemption at the option of the Issuer*), 7(c) (*Redemption for regulatory reasons*), 7(d) (*Redemption for tax reasons*), 7(e) (*Clean-up Call Option*) or 7(f) (*Substitution or Variation*), the Issuer shall be bound (subject in all circumstances only to Condition 7(h) (*Conditions to redemption, purchase, substitution and variation*)) to redeem, substitute or vary (as applicable) the Notes to which the notice refers in accordance with the terms of such paragraph.

(k) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to investigate whether any event or circumstance which could lead to, or has led to, a redemption, substitution or variation (as applicable) under this Condition 7 (*Redemption and Purchase; Substitution and Variation*) has occurred and (i) shall not be responsible to Holders for any loss arising from any failure by it to do so and (ii) shall be entitled to assume, unless it has written notice to the contrary, that no such event or circumstance which could lead to, or has led to, a redemption, substitution or variation (as applicable) has occurred and that the PRA Permission and/or all Regulatory Preconditions have been satisfied. The Trustee may rely without further investigation and without liability as aforesaid on any certificate delivered to it in connection with this Condition 7 (*Redemption and Purchase; Substitution and Variation*) including the certificate in the form described in the definition of Qualifying Additional Tier 1 Notes.

## **8 Automatic Conversion**

(a) *Automatic Conversion on a Trigger Event*

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

reasonable in the circumstances, which may include issuing the Conversion Shares to another nominee for the Holders or to the Holders directly, which issuance shall irrevocably and automatically release all of the Issuer's obligations under the Notes as if the Conversion Shares had been issued to the Conversion Shares Depositary.

Whether a Trigger Event has occurred shall be determined by the Issuer or the PRA or any agent appointed by the PRA for such purpose and such determination shall be binding on Holders.

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

If a Trigger Event has occurred, the Issuer shall deliver an Automatic Conversion Notice to the Holders in accordance with Condition 14 (*Notices*) and the Trustee and the Principal Paying Agent without delay after such time. Notwithstanding Condition 14 (*Notices*), the Automatic Conversion Notice shall be deemed to have been given on the date on which it is dispatched to the Trustee and the Holders.

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

Within 10 Business Days following the Conversion Date, the Issuer shall deliver a Conversion Shares Offer Notice to the Trustee directly and to the Holders in accordance with Condition 14 (*Notices*).

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

(b) *Consequences of Automatic Conversion*

- (i) Following an Automatic Conversion, no Holder will have any rights against the Issuer with respect to the repayment of the principal amount of the Notes or the payment of interest or any other amount on or in respect of such Notes, which liabilities of the Issuer shall be irrevocably and automatically released and, accordingly, the principal amount of the Notes shall equal zero at all times thereafter. Any Interest Amount in respect of an Interest Period ending on any Interest Payment Date falling between the date of a Trigger Event and the Conversion Date shall be deemed to have been automatically and irrevocably cancelled upon the occurrence of such Trigger Event and shall not be due and payable.
- (ii) Following the issuance of the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as contemplated above and as applicable) on the Conversion Date, the Notes shall remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the Holder's right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary (or such other relevant recipient).
- (iii) **Provided that** the Issuer issues and delivers the Conversion Shares to the Conversion Shares Depositary (or to the relevant recipient as contemplated above) in accordance with these Conditions, with effect from the Conversion Date, Holders shall have recourse only to the Conversion Shares Depositary (or to such other relevant recipient, as applicable) for the delivery to them of Conversion Shares or, if the Issuer elects that a Conversion Shares Offer be made pursuant to Condition 8(d) (*Conversion Share Offer*) below, of any Conversion Shares Offer Consideration to which such Holders are entitled.

(iv) If the Issuer fails to issue and deliver the Conversion Shares to be issued and delivered on an Automatic Conversion to the Conversion Shares Depository (or to the relevant recipient as contemplated above) in accordance with the Conditions, a Holder's only right under the Notes against the Issuer for any such failure will be to claim to have such Conversion Shares so issued and delivered.

(c) *Conversion Shares*

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

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

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

(iv) The Conversion Shares issued following an Automatic Conversion will be fully paid and non-assessable and will in all respects rank *pari passu* with the Issuer's fully paid ordinary shares in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law, and except that the Conversion Shares so issued will not rank for (or, as the case may be, the relevant Holder shall not be entitled to receive) any rights, the entitlement to which falls prior to the Conversion Date.

(v) The Conversion Shares Depository (or the relevant recipient in accordance with these Conditions, as applicable) shall hold the Conversion Shares on behalf of the Holders, who shall be entitled to direct the Conversion Shares Depository or such other recipient, as applicable, to exercise on their behalf all rights of an ordinary shareholder (including voting rights and rights to receive dividends) except that Holders shall not be able to sell or otherwise transfer the Conversion Shares until such time as they have been delivered to Holders in accordance with the procedures set forth in Condition 8(e) (*Settlement Procedure*).

(vi) If a Qualifying Takeover Event shall have occurred, then, where the Conversion Date falls on or after the QTE Effective Date, Approved Entity Shares of the Approved Entity shall be issued to the Conversion Shares Depository on the Conversion Date instead of Conversion Shares, in accordance with Condition 9(e) (*Qualifying Takeover Event*).

(vii) The Conversion Shares or the Conversion Shares Offer Consideration, as the case may be, will be delivered to Holders pursuant to the procedures set out in Condition 8(e) (*Settlement Procedure*) below.

(d) *Conversion Shares Offer*

- (i) No later than 10 Business Days following the Conversion Date, the Issuer may, in its sole and absolute discretion, elect that the Conversion Shares Depository make an offer of all or some of the Conversion Shares to all or some of the Issuer's ordinary shareholders at such time at a cash price per Conversion Share equal to the Conversion Price, subject as provided below (the "**Conversion Shares Offer**"). The Issuer may, on behalf of the Conversion Shares Depository, appoint a Conversion Shares Offer Agent to act as placement or other agent to facilitate the Conversion Shares Offer.
- (ii) The Issuer will deliver a Conversion Shares Offer Notice to the Trustee and the Principal Paying Agent directly and to the Holders in accordance with Condition 14 (*Notices*) within 10 Business Days following the Conversion Date specifying whether or not it has elected that a Conversion Shares Offer be conducted. If so elected, the Conversion Shares Offer Period, during which the Conversion Shares Offer may be made, shall end no later than 40 Business Days after the giving by the Issuer of the Conversion Shares Offer Notice.
- (iii) Any Conversion Shares Offer shall be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Issuer, in its sole and absolute discretion, determines that the Conversion Shares Offer is practicable. The Issuer or the purchasers of the Conversion Shares sold in any Conversion Shares Offer shall bear the costs and expenses of any Conversion Shares Offer (other than the taxes referred to in the definition of Conversion Shares Offer Consideration), including the fees of the Conversion Shares Offer Agent, if any. If a prospectus or other offering document is required to be prepared in connection with a Conversion Shares Offer, the Issuer will facilitate the preparation of such prospectus or other offering document, and the Issuer and/or its directors will take responsibility for such prospectus or other offering document, in each case, if and to the extent then required by applicable laws and regulations then in effect. In addition, if so requested by the Conversion Shares Depository as offeror, the Issuer shall indemnify the Conversion Shares Depository for any losses incurred in connection with any Conversion Shares Offer.
- (iv) Upon completion of the Conversion Shares Offer, the Issuer or the Conversion Shares Depository will provide notice to the Trustee and the Holders in accordance with Condition 14 (*Notices*) of the composition of the Conversion Shares Offer Consideration (and of the deductions to the cash component, if any, of the Conversion Shares Offer Consideration (as set out in the definition of Conversion Shares Offer Consideration)) per Calculation Amount.
- (v) The Issuer reserves the right, in its sole and absolute discretion, to terminate the Conversion Shares Offer at any time during the Conversion Shares Offer Period by providing at least three Business Days' notice to the Trustee directly and to the Holders in accordance with Condition 14 (*Notices*), and, if it does so, the Issuer may, in its sole and absolute discretion, take steps (including changing the Suspension Date) to deliver to Holders the Conversion Shares at a time that is earlier than the time at which they would have otherwise received the Conversion Shares Offer Consideration had the Conversion Shares Offer been completed.
- (vi) By its subscription for, purchase or other acquisition of the Notes, each Holder acknowledges and agrees that if the Issuer elects, in its sole and absolute discretion, that a Conversion Shares Offer be conducted by the Conversion Shares Depository such Holder shall be deemed to have irrevocably: (i) consented to any Conversion Shares Offer and to the Conversion Shares Depository using the Conversion Shares to settle any Conversion Shares Offer in accordance with these Conditions, (ii) consented to the transfer of the beneficial interest it holds in the Conversion

Shares to the Conversion Shares Depository in connection with the Conversion Shares Offer in accordance with these Conditions, (iii) agreed that the Issuer, the Conversion Shares Depository and the Conversion Shares Offer Agent, if any, may take any and all actions necessary to conduct the Conversion Shares Offer in accordance with these Conditions, and (iv) agreed that none of the Issuer, the Trustee, the Conversion Shares Depository, if any, or the Conversion Shares Offer Agent, if any, shall, to the extent permitted by applicable law, incur any liability to the Holders in respect of the Conversion Shares Offer (except for the obligations of the Conversion Shares Depository in respect of the Holders' entitlement to any Conversion Shares Offer Consideration).

- (vii) Neither the occurrence of a Trigger Event nor, following the occurrence of a Trigger Event, the election (if any) by the Issuer to undertake a Conversion Shares Offer on the terms set out herein, shall preclude the Issuer from undertaking a rights issue at any time on such terms as the Issuer deems appropriate, at its sole discretion, including, for the avoidance of doubt, the offer of ordinary shares at or below the Conversion Price.

(e) *Settlement Procedure*

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

- (i) The Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will be delivered to Holders in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & International Limited, known as CREST, unless the Conversion Shares are not a participating security in CREST at the relevant time, in which case the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will either be delivered in the form of the relevant clearing system in which the Conversion Shares are a participating security or in certificated form, as notified by the Issuer to the Holders in accordance with Condition 14 (*Notices*). Where the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are to be delivered through CREST or such other clearing system in which such Conversion Shares are a participating security, they will be delivered to the account specified by the relevant Holder in the relevant Conversion Shares Settlement Notice.
- (ii) Where the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are to be delivered in certificated form, the name of the relevant Holder (or its nominee) will be entered in the Issuer's share register and a certificate in respect thereof will be dispatched by mail free of charge to the relevant Holder or as it may direct in the relevant Conversion Shares Settlement Notice.
- (iii) The cash component, if any, of any Conversion Shares Offer Consideration will be paid to the Holders by the Conversion Shares Depository (A) if the relevant Conversion Shares Settlement Notice is not delivered to the Conversion Shares Depository before the end of the Conversion Shares Offer Period, by sterling cheque drawn on a bank in London and mailed to their address shown on the Register on or around the date on which the Conversion Shares Offer Period ends, or (B) if the relevant Conversion Shares Settlement Notice is delivered to the Conversion Shares Depository before the end of the Conversion Shares Offer Period, by transfer on or around the date on which the Conversion Shares Offer Period ends to such sterling account maintained by the payee with a bank in London as the Holder may direct in such notice.
- (iv) The Conversion Shares (and the Conversion Share component, if any, of any Conversion Shares Offer Consideration) will not be available for delivery (A) to, or to a nominee for, Clearstream, Luxembourg or Euroclear or any other person providing a clearance service within the meaning

of Section 96 of the Finance Act 1986 of the United Kingdom or (B) to a person, or nominee or agent for a person, whose business is or includes issuing depository receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the “abolition day” as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom, or, if earlier, such other time at which the Issuer, in its absolute discretion, determines that no charge under Section 67, 70, 93 or 96 of the Finance Act 1986 or any similar charge (under any successor legislation) would arise as a result of such delivery or (C) to the CREST account of such a person mentioned in (A) or (B).

- (v) Neither the Issuer, nor any of its Subsidiaries shall be liable for any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the delivery of Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration), which tax shall be borne solely by the Holder or, if different, the person to whom the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) are delivered.
- (vi) The Conversion Shares Offer Notice shall specify the Suspension Date. On the Suspension Date, the Issuer shall deliver a Conversion Shares Settlement Request Notice to the Trustee and Principal Paying Agent directly and to the Holders in accordance with Condition 14 (*Notices*). Such notice shall request that Holders complete a Conversion Shares Settlement Notice and shall specify the Notice Cut-off Date and the Final Cancellation Date.
- (vii) In order to obtain delivery of the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable, a Holder must deliver its Conversion Shares Settlement Notice to the Conversion Shares Depository (or to the relevant recipient as contemplated above) on or before the Notice Cut-off Date. If such delivery is made after the end of normal business hours at the specified office of the Conversion Shares Depository (or of the relevant recipient), such delivery shall be deemed for all purposes to have been made or given on the next following Business Day. The Conversion Shares Settlement Notice must be delivered to the specified office of the Conversion Shares Depository (or of the relevant recipient) together with the relevant Notes.
- (viii) Each Conversion Shares Settlement Notice shall be irrevocable. Failure to properly complete and deliver a Conversion Shares Settlement Notice and the relevant Notes, if applicable, may result in such notice being treated by the Conversion Shares Depository (or by the relevant recipient) as null and void. Any determination as to whether any Conversion Shares Settlement Notice has been properly completed and delivered shall be made by the Conversion Shares Depository (or by the relevant recipient) in its sole and absolute discretion and shall be conclusive and binding on the relevant holder.
- (ix) Subject as provided herein and provided the Conversion Shares Settlement Notice and the relevant Notes, if applicable, are delivered on or before the Notice Cut-off Date, the Conversion Shares Depository (or the relevant recipient) shall deliver the relevant Conversion Shares (rounded down to the nearest whole number of Conversion Shares) or Conversion Share component, if any, of any Conversion Shares Offer Consideration (rounded down to the nearest whole number of Conversion Shares), as applicable, to the Holder of the relevant Notes completing the relevant Conversion Shares Settlement Notice or its nominee in accordance with the instructions given in such Conversion Shares Settlement Notice on the applicable Settlement Date.

- (x) If a Conversion Shares Settlement Notice and the relevant Notes, if applicable, are not delivered to the Conversion Shares Depository on or before the Notice Cut-off Date, then the Conversion Shares Depository shall continue to hold the relevant Conversion Shares (or Conversion Share component, if any, of any Conversion Shares Offer Consideration) until a Conversion Shares Settlement Notice (and the relevant Notes, if applicable) is so delivered. However, the relevant Notes shall be cancelled on the Final Cancellation Date and any Holder delivering a Conversion Shares Settlement Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the relevant Conversion Shares (or the relevant Conversion Shares component, if any, of any Conversion Shares Offer Consideration) satisfactory to the Conversion Shares Depository in its sole and absolute discretion in order to receive delivery of such Conversion Shares (or Conversion Share component of any Conversion Shares Offer Consideration).
- (xi) The Issuer shall have no liability to any Holder for any loss resulting from such Holder not receiving any Conversion Shares (or Conversion Share component of any Conversion Shares Offer Consideration) or from any delay in the receipt thereof, in each case as a result of such holder failing to duly submit a Conversion Shares Settlement Notice and the relevant Notes, if applicable, on a timely basis or at all.

(f) *Trustee not responsible for Conversion Shares or Conversion Shares Depository*

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

## 9 Adjustments to the Conversion Price

(a) *Adjustments to the Conversion Price*

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

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

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

where:

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

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

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

- (ii) If and whenever the Issuer shall issue any ordinary shares credited as fully paid to the Issuer's shareholders as a class by way of capitalisation of profits or reserves (including any share

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

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

where:

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

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

- (iii) If and whenever the Issuer shall issue any ordinary shares to all or substantially all of the Issuer's shareholders as a class by way of rights, or the Issuer or (at the direction or request of, or pursuant to any arrangements with, the Issuer) any other company, person or entity shall issue or grant such shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any such ordinary shares, or any securities (including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any such ordinary shares (or shall grant any such rights in respect of existing securities so issued), in each case at a price per ordinary share which is less than 95 per cent. of the Current Market Price per ordinary share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

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

where:

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

C is the number of ordinary shares to be issued or, as the case may be, the maximum number of ordinary shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate, provided that if, on the Effective Date, such number of ordinary shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 9(a)(iii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

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

- (1) the aggregate consideration receivable or price for ordinary shares issued for cash shall be the amount of such cash;
- (2) (x) the aggregate consideration receivable or price for ordinary shares to be issued or otherwise made available upon the conversion or exchange of any securities shall be deemed to be the consideration or price received or receivable for any such securities and (y) the aggregate consideration receivable or price for ordinary shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per ordinary shares upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of ordinary shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (3) if the consideration or price determined pursuant to (1) or (2) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date;
- (4) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant ordinary shares or securities or options, warrants or rights, or otherwise in connection therewith;

- (5) the consideration or price shall be determined as provided in (1)-(4) above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity; and
  - (6) references herein to “cash” shall be construed as cash consideration within the meaning of Section 583(3) of the Companies Act.
- (iv) If and whenever the Issuer shall pay any Extraordinary Dividend to shareholders of the Issuer as a class, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

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

where:

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

Such adjustment shall become effective on the Effective Date.

Notwithstanding the foregoing provisions:

- (A) No adjustment to the Conversion Price will be made:
  - (1) as a result of the payment of any Cash Dividend (other than an Extraordinary Dividend);
  - (2) to the extent ordinary shares or other securities (including rights, warrants or options in relation to ordinary shares and other securities) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, directors or employees or former directors or employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person in any such case pursuant to any employee share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme;
  - (3) if an increase in the Conversion Price would result from such adjustment, except in case of a consolidation of the ordinary shares; or
  - (4) if it would result in the Conversion Price being reduced below the nominal value of an ordinary share.

The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would (but for the operation of paragraph (4) above) result in an adjustment to the Conversion Price to below the nominal value of an ordinary share.

- (B) Where the events or circumstances giving rise to any adjustment pursuant to this Condition 9 (*Adjustments to the Conversion Price*) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances that have already given or will give rise to an adjustment to the Conversion Price or where more than one event that gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the then prevailing Capital Regulations, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result.
- (C) Such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once.
- (D) For the avoidance of doubt, the issue of ordinary shares following an Automatic Conversion or upon any conversion or exchange or the exercise of any other options, warrants or other rights shall not result in an adjustment to the Conversion Price.
- (E) In respect of any adjustment pursuant to paragraphs (i) to (iii) above, such adjustment shall be made only up to the extent it does not result in a Conversion Price that, if it were to be applied for the purposes of any Automatic Conversion at the time of such adjustment, would result in a number of Conversion Shares being required to be issued which represents a greater proportion of the total number of ordinary shares of the Issuer which are in issue at the time of such adjustment than would be the case had the adjustment not been made (and had the corporate event not occurred).
- (F) In respect of any adjustment pursuant to paragraph (iv) above, such adjustment shall be made only up to the extent it does not result in a Conversion Price that, if it were to be applied for the purposes of any Automatic Conversion at the time of such adjustment, would result in the issue of an additional number of Conversion Shares having a value (calculated using the Current Market Price of one ordinary share on the Effective Date) that is greater than the Fair Market Value of the Extraordinary Dividend which would be attributable to the ordinary shares underlying the Notes had such ordinary shares been in issue.

(b) *No Retroactive Adjustments*

The Issuer shall not issue any additional Conversion Shares if the Automatic Conversion occurs after the record date in respect of any consolidation, reclassification or subdivision as is mentioned in Condition 9(a)(i) (*Adjustments to the Conversion Price*), or after the record date or other due date for the establishment of entitlement for any such issue as is mentioned in Condition 9(a)(ii) (*Adjustments to the Conversion Price*), but before the relevant adjustment to the Conversion Price becomes effective under such section.

(c) *Calculation of Adjustments and Decision of an Independent Financial Adviser*

Any adjustment to the Conversion Price may be calculated by the Issuer or, at the election of the Issuer, by an Independent Financial Adviser and such calculations shall be final and binding on the Trustee, the Agents, the Holders and (in the case of a calculation by the Independent Financial Adviser) the Issuer,

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

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

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

Notice of any adjustments to the Conversion Price shall be given by the Issuer to the Trustee and to the Holders in accordance with Condition 14 (*Notices*) promptly after the determination thereof.

(e) *Qualifying Takeover Event*

Within 10 Business Days following the occurrence of a Takeover Event, the Issuer shall give notice thereof to the Trustee and to the Holders by means of a Takeover Event Notice. If the Takeover Event is not a Qualifying Takeover Event, the Takeover Event Notice addressed to the Trustee shall include a certification signed by two Authorised Signatories certifying that a Takeover Event that is not a Qualifying Takeover Event has occurred, in which event such certification shall be treated and accepted by the Trustee and the Holders as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further investigation and without liability to any person.

If the Takeover Event is a Qualifying Takeover Event, the Notes shall, where the Conversion Date falls on or after the QTE Effective Date, be converted into or exchanged for Approved Entity Shares of the Approved Entity, *mutatis mutandis* as provided in Condition 8 (*Automatic Conversion*) above, at a Conversion Price that shall initially be the New Conversion Price, which may be higher or lower than the Conversion Price and references herein to “Conversion Shares” shall be deemed to be references to “Approved Entity Shares”.

Such conversion shall be effected by the delivery by the Issuer of such number of ordinary shares in the Issuer to the Approved Entity as is determined in accordance with Condition 8 (*Automatic Conversion*) and such delivery shall irrevocably release, discharge and satisfy all of the Issuer’s obligations in respect of the Notes in question (but shall be without prejudice to the Approved Entity’s obligations to deliver Approved Entity Shares). Such delivery shall be in consideration of the Approved Entity irrevocably undertaking, for the benefit of the Holders, to deliver the Approved Entity Shares to the Conversion Shares Depositary.

The New Conversion Price shall be subject to adjustment in the circumstances provided for in Condition 9(a) (*Adjustments to the Conversion Price*) above (if necessary with such modifications and amendments as an Independent Financial Adviser acting in good faith shall determine to be appropriate and references to “ordinary shares” shall be read as references to “Approved Entity Shares”), and the Issuer shall give

notice to the Trustee and to the Holders in accordance with Condition 14 (*Notices*) of the New Conversion Price and of any such modifications and amendments thereafter.

- (i) In the case of a Qualifying Takeover Event:
  - (A) the Issuer shall, to the extent permitted by applicable law and regulation, on or prior to the QTE Effective Date, seek to enter into such agreements and arrangements (which may include a supplemental trust deed and amendments and modifications to these Conditions and the Trust Deed) as may be required to ensure that, with effect from the QTE Effective Date, the Notes shall be convertible into, or exchangeable for, Approved Entity Shares, *mutatis mutandis* in accordance with, and subject to, the provisions in Condition 8 (*Automatic Conversion*) (as may be so supplemented, amended or modified), at the New Conversion Price and any references to the Conversion Price shall be construed as references to the New Conversion Price; and
  - (B) upon the occurrence of a Trigger Event where the Conversion Date falls on or after the QTE Effective Date, the Issuer shall procure (to the extent within its control) the issue of the relevant number of Approved Entity Shares *mutatis mutandis* in the manner provided in Condition 8 (*Automatic Conversion*) above, as may be amended or modified as provided above.

The Trustee shall be obliged (at the expense of the Issuer) to concur with the Issuer in making any such amendments and modifications to the Trust Deed and these Conditions, and to execute any such deeds supplemental to the Trust Deed, **provided that** (1) the Trustee receives a certificate signed by two Authorised Signatories certifying that a Qualifying Takeover Event has occurred and confirming that the Issuer has made the relevant determinations in accordance with this Condition 9(e) and attaching the proposed amendments and modifications; and (2) the Trustee shall not be bound to do so if any such amendments and modifications would, in the opinion of the Trustee (acting reasonably), have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes.

- (ii) In the case of a Takeover Event that is not a Qualifying Takeover Event (including if that is because the Acquirer is a Governmental Entity or because on the Conversion Date the Acquirer's Shares are not Approved Entity Shares), with effect from the occurrence of the Takeover Event (or the date on which the Acquirer's Shares cease to be Approved Entity Shares), outstanding Notes shall not be subject to Automatic Conversion into shares of the Acquirer at any time notwithstanding that a Trigger Event may occur subsequently but instead, upon the occurrence of a subsequent Trigger Event (if any) (or where the Conversion Date occurs on or after the date of such Takeover Event) the Notes shall be converted into ordinary shares in the Issuer in accordance with Condition 8(a) (*Automatic Conversion on a Trigger Event*) as if no Takeover Event had occurred.

(f) *Covenants*

Whilst any Note remains outstanding, the Issuer shall (if and to the extent permitted by the Capital Regulations from time to time and only to the extent that such covenant would not prejudice the qualification of the Notes as Additional Tier 1 Capital for the purposes of and in accordance with the then prevailing Capital Regulations):

- (i) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on the Conversion Date, the Issuer's ordinary shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (ii) use all reasonable endeavours to ensure that the Conversion Shares delivered upon Conversion shall be admitted to listing and trading on the Relevant Stock Exchange on which the ordinary shares are then admitted to listing and trading (if any);
- (iii) at all times keep available for issue or allotment, free from any pre-emptive or other preferential rights, sufficient ordinary shares to enable the issue of all Conversion Shares as would be necessary to satisfy in full the obligation of the Issuer to issue and deliver Conversion Shares following the occurrence of a Trigger Event (and further to any adjustments (if any) to the Conversion Price pursuant to Condition 9(a) (*Adjustments to the Conversion Price*)); and
- (iv) in the event of a Newco Scheme, save with the approval of an Extraordinary Resolution, take (or shall procure that there is taken) all necessary action to ensure that the Newco Scheme is an Exempt Newco Scheme and that immediately after completion of the Scheme of Arrangement such amendments are made to these Conditions and the Trust Deed as are necessary to ensure that the Notes may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed. The Trustee shall (at the expense of the Issuer and **provided that** the Trustee receives a certificate signed by two Authorised Signatories confirming that the effect of such amendments will be only that the Notes may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions) be bound to concur in effecting such amendments, **provided that** the Trustee shall not be bound to concur if to do so would, in the opinion of the Trustee (acting reasonably), (i) expose the Trustee to any liability against which it is not indemnified and/or secured and/or pre-funded to its satisfaction, (ii) change, increase or add to the obligations or duties of the Trustee or (iii) remove or amend any protection or indemnity afforded to, or any other provisions in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes.

## 10 Taxation

### (a) *Payment without withholding*

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

- (i) to or on behalf of a Holder, or a beneficial owner of the relevant Notes, which is liable to such Taxes in respect of such Note by reason of its having some connection with the Relevant Jurisdiction other than the mere holding or ownership of the Note; or

- (ii) where (in the case of a payment of interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Amounts if it had surrendered the relevant Certificate on the last day of such period of 30 days; or
- (iii) where the Holder of the relevant Notes failed to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the Relevant Jurisdiction of such Holder, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the Relevant Jurisdiction as a condition to relief or exemption from such taxes.

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

(b) *Additional Amounts*

Any reference in these Conditions to any interest in respect of the Notes shall be deemed also to include any Additional Amounts which is, were or would be payable under this Condition 10 (*Taxation*).

The mandatory restrictions on payments of Interest Amounts in Condition 5(a) (*Cancellation of interest*) shall apply to any Additional Amounts *mutatis mutandis*.

## 11 Prescription

Notes will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes, subject to the provisions of Condition 6 (*Payments*).

## 12 Enforcement Events and Remedies

- (a) *Enforcement Events*: The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject, in any such case, to being indemnified and/or secured and/or prefunded to its satisfaction), without further notice:
  - (i) *Non-payment*: if the Issuer fails to pay the principal on any of the Notes when due and such failure continues for a period of 14 days, institute proceedings for the winding up of the Issuer in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) and/or prove in any Winding Up or Administration, but may take no other action in respect of such default; **provided that** the Issuer shall not be in default if it satisfies the Trustee during the 14 day period that such sums were not paid in order to comply with any mandatory law, regulation or order of any court of competent jurisdiction acting on the advice given to it during such period by independent legal advisers acceptable to the Trustee. No interest will be due and payable if such interest has been cancelled or not paid (in whole or in part) pursuant to Condition 4(a) (*Solvency Condition*), 5(a) (*Cancellation of interest*) or 8 (*Automatic Conversion*). Accordingly, no default

in payment under the Notes will have occurred or be deemed to have occurred in such circumstances;

- (ii) *Winding Up or Administration*: if a Winding Up or an Administration occurs before the occurrence of a Trigger Event, prove and/or claim in such Winding Up or Administration, such claim being as contemplated in Condition 4(b) (*Winding Up or Administration occurring prior to a Trigger Event*); or

*For the avoidance of doubt, any resolution action or moratorium pursuant to the Banking Act 2009, as amended, which does not constitute a Winding Up or an Administration, shall not permit the Trustee or the Holders to declare the Notes due and payable.*

- (iii) *Breach of obligations (other than payment obligations)*: without prejudice to paragraph (i) or (ii) above, if the Issuer breaches any of its obligations under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Trust Deed or the Notes, including, without limitation, payment of any principal or interest in respect of the Notes and any damages awarded for breach of any obligations), subject as provided below, institute such steps, actions or proceedings as it may think fit to enforce the obligation in question provided always that the Trustee (acting on behalf of the Holders but not the Trustee acting in its personal capacity under the Trust Deed) and the Holders may not enforce, and are not entitled to enforce or otherwise claim, against the Issuer any judgment or other award given in such proceedings that requires the payment of money by the Issuer, whether by way of damages or otherwise (a “**Monetary Judgment**”), except by proving and/or claiming such Monetary Judgment in a Winding Up or an Administration and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions and the Trust Deed.

- (b) *Entitlement of Trustee*: Nothing in this Condition 12 (*Enforcement Events and Remedies*) shall, however, prevent the Trustee acting in its personal capacity under the Trust Deed instituting proceedings for the winding up of the Issuer in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) and/or proving in any Winding Up or Administration in respect of any payment obligations of the Issuer to the Trustee in respect of any costs, fees, charges, expenses, liabilities or remuneration of the Trustee arising from the Trust Deed (including any damages awarded for breach of any such obligations).
- (c) *Extent of Remedies*: No remedy against the Issuer other than the institution of the proceedings referred to in Condition 12(a) (*Enforcement Events and Remedies*) or proving in a Winding Up or an Administration shall be available to the Trustee or the Holders whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed in relation thereto (other than in the case of any amounts due to the Trustee in respect of its costs, charges, expenses, liabilities or remuneration or the rights and remedies of the Trustee in respect thereof) 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 relation thereto.
- (d) *Right of Holders*: No Holder shall be entitled to proceed directly against the Issuer or institute any of the proceedings referred to in this Condition 12 (*Enforcement Events and Remedies*) or to prove and/or claim in a Winding Up or an Administration, 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 or Administration, fails to do so, in each case within a reasonable period and in each such case such failure shall be continuing, then any such Holder may itself institute such proceedings and/or prove and/or claim in such Winding Up or Administration to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so in respect of the Notes.

### 13 Replacement of Certificates

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

### 14 Notices

All notices regarding the Notes shall be valid if sent by post to the Holders at their respective addresses in the Register and, if and for so long as the Notes are listed on any 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.

### 15 Meetings of Holders, Modification, Waivers and Substitution

#### (a) *Meetings of Holders*

The Trust Deed contains provisions for convening meetings of Holders (including by way of conference call or videoconference) to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting of Holders for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which is to deal with certain proposals (including any proposal to change any Interest Payment Date or any optional redemption date, to reduce the interest rate applicable in respect of the Notes, to reduce the principal amount of the Notes, to alter the method of calculating of any interest in respect of the Notes, to change the currency of payments under the Notes, to modify the provisions of Conditions 3 (*Status*) or 4 (*Subordination*), to modify the provisions of Condition 8 (*Automatic Conversion*) and/or Condition 9 (*Adjustments to the Conversion Price*) (other than pursuant to or as a result of any amendment to these Conditions and the Trust Deed made pursuant to and in accordance with Condition 9(e) (*Qualifying Takeover Event*) or Condition 9(f) (*Covenants*)) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (in each case, unless such change is expressly permitted without the consent of Holders pursuant to these Conditions, each, a “**Reserved Matter**”)), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two thirds, or at any adjourned meeting not less than one third, of the aggregate principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders will be binding on all Holders, whether or not they are present at the meeting and whether or not they voted on the resolution.

In addition, a resolution in writing signed by or on behalf of the holders of at least 75 per cent. in aggregate principal amount of the outstanding Notes 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 Holders.

(b) *Modification, authorisation, waiver*

Except where the Trustee is bound pursuant to Condition 7(f) (*Substitution or Variation*), Condition 9(e)(i) (*Qualifying Takeover Event*) and Condition 9(f) (*Covenants*) to give effect to the amendments described therein, the Trustee may agree (other than in respect of a Reserved Matter), without the consent of the Holders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (**provided that**, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Holders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest error.

(c) *PRA Permission*

These Conditions shall only be capable of modification or waiver if the Issuer has obtained the relevant PRA Permission (and such PRA Permission has not been revoked by the relevant date of such modification or waiver).

The Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer certifying that it has received the PRA Permission (and such PRA Permission has not been revoked by the relevant date of such modification or waiver) and the Trustee shall be entitled (without further investigation or liability) to accept such certificate as sufficient evidence of the PRA Permission.

(d) *Trustee to have regard to interests of Holders 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 Holders as a class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Holders (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 Holder 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 Holders except to the extent already provided for in Condition 8 (*Automatic Conversion*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Automatic Conversion*) pursuant to the Trust Deed.

(e) *Notification to the Holders*

Any modification, waiver or authorisation referred to in this Condition 15 (*Meetings of Holders, Modification, Waivers and Substitution*) shall be binding on the Holders and notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(f) *Substitution of the Issuer*

The Trustee may, without the consent of the Holders but subject to the Issuer having obtained PRA Permission (and such PRA Permission not having been revoked by the relevant date of any substitution effected pursuant to this Condition 15(f)), agree with the Issuer to the substitution on a subordinated basis equivalent to that referred to in Condition 3 (*Status*) and Condition 4 (*Subordination*) in place of the Issuer (or of any previous substitute under this Condition 15) as the principal debtor under the Notes, the Trust Deed and the Agency Agreement of any Subsidiary of the Issuer (the “**Substitute**”) provided that:

- (i) a deed is executed or some other form of undertaking is given by the Substitute in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute had been named in the Trust Deed, the Agency Agreement and on the Notes, as the principal debtor in place of the Issuer (or of any previous substitute under this Condition);
- (ii) two directors of the Substitute certify that the Substitute is solvent at the time at which the said substitution is proposed to be effected and will remain solvent immediately after such substitution is effected (and the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute or to compare the same with those of the Issuer);
- (iii) without prejudice to the rights of reliance of the Trustee under paragraph (ii) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
- (iv) if the Substitute is incorporated, domiciled or resident in a territory other than the United Kingdom, an undertaking or covenant shall be given by the Substitute in terms corresponding to Condition 10 (*Taxation*) with the substitution for the references to the United Kingdom in the definition of “Relevant Jurisdiction” with references to such territory, whereupon the Trust Deed, these Conditions and the Notes shall be read accordingly;
- (v) if the Notes had a published rating solicited by the Issuer from one or more rating agencies at any time in the period of 12 months prior to the substitution, then the Notes are assigned by each such rating agency, or each such rating agency has informed the Issuer by an announcement or otherwise of its intention to assign, an equal or higher published solicited rating immediately after the substitution;
- (vi) if the Notes comply with the then current minimum requirements of the PRA in relation to Additional Tier 1 Capital immediately prior to the substitution, the Notes continue to comply with the then current minimum requirements of the PRA in relation to Additional Tier 1 Capital immediately following the substitution;
- (vii) if the Notes are listed on the ISM or any other stock exchange or market immediately prior to the substitution, the Notes continue to be listed on the ISM or on such other stock exchange or market immediately following the substitution;
- (viii) if the ordinary shares are listed on a Recognised Stock Exchange immediately prior to the substitution, the ordinary shares continue to be listed on a Recognised Stock Exchange immediately following the substitution; and
- (ix) the substitution does not cause a Capital Disqualification Event or a Tax Event to occur in respect of the Notes immediately following the substitution.

Any such deed or undertaking shall, if so expressed, operate to release the Issuer or any previous substitute (as the case may be) from all of its obligations as principal debtor under the Trust Deed, the Agency Agreement and the Notes. Upon the execution of such documents and compliance with the above requirements, the Substitute shall be deemed to be named in the Trust Deed, the Agency Agreement and the Notes as the principal debtor in place of the Issuer (or in place of the previous substitute) and the Trust Deed, the Agency Agreement and the Notes shall be deemed to be modified in such manner as shall be necessary to give effect to the substitution and, without limitation, references in the Trust Deed, the Agency Agreement and the Notes to the Issuer shall, unless the context otherwise requires, be deemed to be references to the Substitute.

Any substitution pursuant to this Condition 15(f) (*Substitution of the Issuer*) shall be binding on the Holders and shall be notified by the Issuer to the Holders in accordance with Condition 14 (*Notices*) not less than 15 nor more than 60 days' prior to such substitution taking effect.

## 16 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 Holders, 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 Holders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

### (b) *Trustee Contracting with the Issuer*

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Holders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

### (c) *Reliance by Trustee on reports, confirmations, certificates and advice*

The Trustee may rely without liability to Holders 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 Trustee and the Holders.

### (d) *Mandatory modifications*

When implementing any modification pursuant to Condition 7(f) (*Substitution or Variation*), Condition 9(e)(i) (*Qualifying Takeover Event*) and Condition 9(f) (*Covenants*), the Trustee shall not consider the interests of the Holders or any other person. The Trustee shall not be liable to the Holders or any other person for so acting or for any losses incurred by any person by reason thereof, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person and/or is or may be a Reserved Matter.

### (e) *Trustee's remuneration, liability etc.*

The provisions of Condition 4 (*Subordination*) apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Conditions 4 (*Subordination*) or 13 (*Enforcement*

*Events and Remedies*) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligations in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest or other amounts by reason of Condition 4(a) (*Solvency Condition*) or Condition 5(a) (*Cancellation of interest*), Automatic Conversion pursuant to Condition 8 (*Automatic Conversion*) or any cancellation of the Notes or write down of any claims in respect thereof following the occurrence of a Takeover Event that is not a Qualifying Takeover Event pursuant to Condition 9(e)(ii) (*Qualifying Takeover Event*). Furthermore, the Trustee shall not be responsible or liable for any calculation or the verification of any calculation in connection with any of the foregoing.

## **17 Further Issues**

The Issuer may from time to time without the consent of the Holders, but subject to any PRA Permission required, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and date of the first payment of interest, if any, on them and/or the issue price thereof and/or the date from which interest starts to accrue, if any) 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.

## **18 Governing Law and Jurisdiction**

### *(a) Governing Law*

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

### *(b) Jurisdiction*

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.

## **19 Rights of Third Parties**

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

## **20 Recognition of UK Bail-in Power**

### *(a) Agreement and Acknowledgement with Respect to the Exercise of the UK Bail-in Power*

Notwithstanding and to the exclusion of any other term of any Notes or any other agreements, arrangements, or understandings between the Issuer and any Holder (or the Trustee on behalf of the Holders), by its acquisition of the Notes, each Holder acknowledges and accepts that the Amounts Due arising under the Notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents, and agrees to be bound by:

- (i) the effect of the exercise of the UK Bail-in Power by the Resolution Authority, that may include and result in any of the following, or some combination thereof:
  - (A) the reduction of all, or a portion, of the Amounts Due;
  - (B) the conversion of all, or a portion, of the Amounts Due in respect of the Notes into shares, other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes;
  - (C) the cancellation of the Notes; or
  - (D) the amendment of the amount of interest payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
- (ii) the variation of the terms of the Notes, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

(b) *Definitions*

For the purposes of this Condition 20 (*Recognition of UK Bail-in Power*):

“**Amounts Due**” means the principal amount of, and any accrued but unpaid interest on, the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the UK Bail-in Power by the Resolution Authority.

“**Resolution Authority**” means the Bank of England or any successor or replacement thereto or such other authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction) having primary responsibility for the recovery and/or resolution of the of the Issuer and/or the Regulatory Group.

“**UK Bail-in Power**” means any write-down, conversion, transfer, modification and/or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to the Issuer or other members of the Regulatory Group, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of a resolution regime in the United Kingdom under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the Financial Services (Banking Reform) Act 2013, secondary legislation or otherwise), pursuant to which obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, amended, transferred and/or converted into shares or other securities or obligations of the obligor or any other person.

(c) *Payment of Interest and Other Outstanding Amounts Due*

No repayment or payment of Amounts Due in relation to the Notes will become due and payable or be paid after the exercise of any UK Bail-in Power by the Resolution Authority if and to the extent such amounts have been reduced, written-down, converted, cancelled, amended or altered as a result of such exercise.

(d) *Event of Default*

Neither a reduction or cancellation, in part or in full, of the Amounts Due, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Issuer, nor the exercise of the UK Bail-in Power

by the Resolution Authority with respect to the Notes will be an event of default or constitute a default for any purposes.

(e) *Notice*

Upon the exercise of the UK Bail-in Power by the Resolution Authority with respect to any Notes, the Issuer shall as soon as reasonably practicable notify the Trustee, the Registrar and the Principal Paying Agent in writing of such exercise and give notice of the same to Holders in accordance with Condition 14 (*Notices*). Any delay or failure by the Issuer in delivering any notice referred to in this Condition 20(e) (*Notice*) shall not affect the validity and enforceability of the UK Bail-in Power and shall not constitute a default by the Issuer for any purpose.

## 21 Definitions

(a) *Definitions*

In these Conditions:

“**Accrued Interest**” means, with respect to a date fixed for redemption in accordance with Condition 7 (*Redemption and Purchase; Substitution and Variation*), any interest accrued but unpaid on the Notes from (and including) the Interest Payment Date most recently preceding such date fixed for redemption to (but excluding) such date fixed for redemption and which is unpaid, but excluding any interest which has been cancelled in accordance with Condition 4(a) (*Solvency Condition*), Condition 5(a) (*Cancellation of interest*) or Condition 8 (*Automatic Conversion*).

“**Acquirer**” means the person that controls the Issuer following a Takeover Event.

“**Additional Amounts**” has the meaning given to it in Condition 10(a) (*Payment without withholding*).

“**Additional Tier 1 Capital**” has the meaning given to it (or any successor term) from time to time in the Capital Regulations.

“**Administration**” has the meaning given to it in Condition 4(b) (*Winding Up or Administration occurring prior to a Trigger Event*).

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

“**Agent**” means the Principal Paying Agent, the Registrar, the Transfer Agent, the Agent Bank and each of the other agents appointed pursuant to the Agency Agreement.

“**Agent Bank**” means Citibank, N.A., London Branch or any successor agent bank appointed from time to time in connection with the Notes.

“**Approved Entity**” means a body corporate which, on the occurrence of the Takeover Event, has in issue Approved Entity Shares.

“**Approved Entity Shares**” means ordinary shares in the capital of a body corporate that constitute equity share capital or the equivalent (or depository or other receipts representing the same) which are listed and admitted to trading on a Recognised Stock Exchange **provided that** ordinary shares shall not be Approved Entity Shares if the conversion, or possible conversion, of the Notes into those ordinary shares would have an effect of the kind referred to in either paragraph (ii) or (iii) of Condition 7(d) (*Redemption for tax reasons*) on the Issuer (an “**Adverse Tax Effect**”) and such Adverse Tax Effect arises as a consequence of the fact that the Notes would not be (i) “hybrid capital instruments” for the purposes of section 475C of the Corporation Tax Act 2009 or (ii) afforded equivalent treatment under any applicable successor or replacement legislation; and ordinary shares shall cease to be Approved

Entity Shares if such ordinary shares are initially Approved Entity Shares, but subsequently would have an Adverse Tax Effect on or before the Conversion Date.

“**Authorised Denomination**” has the meaning given to it in Condition 1(a) (*Form and Denomination*).

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

“**Automatic Conversion**” means the irrevocable and automatic release of all of the Issuer’s obligations under the Notes in consideration of the Issuer’s issuance of the Conversion Shares at the Conversion Price to the Conversion Shares Depositary (on behalf of the Holders) or to the relevant recipient, in accordance with these Conditions and “**convert**” and “**converted**” shall be construed accordingly.

“**Automatic Conversion Notice**” means the written notice to be delivered by the Issuer to the Trustee and Principal Paying Agent directly and to the Holders in accordance with Condition 14 (*Notices*) specifying (i) that a Trigger Event has occurred, (ii) the Conversion Date or expected Conversion Date, (iii) the Conversion Price, (iv) that the Issuer has the option, at its sole and absolute discretion, to elect that a Conversion Shares Offer be conducted and that the Issuer will issue a Conversion Shares Offer Notice in accordance with Condition 14 (*Notices*) within 10 Business Days following the Conversion Date notifying Holders of the Issuer’s election and (v) that the Notes shall remain in existence for the sole purpose of evidencing the Holder’s right to receive Conversion Shares or Conversion Shares Offer Consideration, as applicable, from the Conversion Shares Depositary, and that the Notes may continue to be transferable until the Suspension Date, which shall be specified in the Conversion Shares Offer Notice.

“**Benchmark Gilt**” has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

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

“**Calculation Amount**” means £1,000 in principal amount of Notes.

“**Cancellation Date**” means (i) with respect to any Note for which a Conversion Shares Settlement Notice is received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the applicable Settlement Date and (ii) with respect to any Note for which a Conversion Shares Settlement Notice is not received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the Final Cancellation Date.

“**Capital Disqualification Event**” has the meaning given to it in Condition 7(c) (*Redemption for regulatory reasons*).

“**Capital Regulations**” means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy (including, without limitation, as to leverage) then in effect in the United Kingdom including, without limitation, any regulations, requirements, guidelines and policies relating to capital adequacy adopted by the PRA from time to time, in each case, to the extent applicable to the Issuer and/or the Regulatory Group.

“**Cash Dividend**” means any dividend or distribution in respect of the ordinary shares to shareholders of the Issuer as a class which is to be paid or made in cash (in whatever currency), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to shareholders upon or in connection with a reduction of capital.

“**Certificate**” has the meaning given to it in Condition 1(a) (*Form and Denomination*).

“**Chapter 4**” has the meaning given to it in Condition 5 (*Interest*).

“**Clean-up Call Threshold**” has the meaning given to it in Condition 7(e) (*Clean-up Call Option*).

“**Clearing Systems**” means Clearstream Banking, S.A. and Euroclear Bank S.A./N.V.

“**Closing Price**” means, in respect of any securities, options, warrants or other rights on any dealing day, the last reported price of such securities, option, warrant or other right on the Relevant Stock Exchange on such dealing day as published by or derived from Bloomberg page HP (or any successor page) in respect of such securities, options, warrants or other rights for the Relevant Stock Exchange (using the setting "PR005 Last Price", or any successor setting) on such dealing day or, if such price is not available from Bloomberg as aforesaid, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Closing Price of such securities, options, warrants or other rights, as the case may be, in respect of such dealing day shall be the Closing Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined, or if such price cannot be determined as provided above, the Closing Price shall be determined as an Independent Financial Adviser might otherwise determine in good faith to be appropriate.

“**Code**” has the meaning given to it in Condition 10 (*Taxation*).

“**Common Equity Tier 1**” means, at any time, the sum, expressed in pounds sterling, of all amounts that constitute common equity tier 1 capital of the Regulatory Group at such time, less any deductions from common equity tier 1 capital of the Regulatory Group required to be made at such time, in each case as calculated by the Issuer on a consolidated basis, in accordance with the Capital Regulations applicable to the Regulatory Group at such time, but without applying any relevant transitional provisions then in effect under the Capital Regulations (unless the Capital Regulations otherwise require or permit (explicitly or without restricting) that such transitional provisions are applied for the purposes of determining whether a Trigger Event has occurred) (which calculation shall be binding on the Trustee and the Holders). For the purposes of this definition, the term “common equity tier 1 capital” shall have the meaning assigned to such term (or any successor term) in accordance with the Capital Regulations.

“**Common Equity Tier 1 Capital Ratio**” means, at any time, the ratio of the Common Equity Tier 1 of the Regulatory Group at such time to the Risk Weighted Assets of the Regulatory Group at such time, expressed as a percentage.

“**Companies Act**” means the Companies Act 2006.

“**Conditions**” means these terms and conditions of the Notes, as amended from time to time.

“**control**” means:

- (i) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer; or
- (ii) the right to appoint or remove a majority of the board of directors of the Issuer.

“**Conversion Date**” means the date on which the Automatic Conversion shall take place, or has taken place, as applicable.

“**Conversion Price**” means £6.19 per Conversion Share, subject to adjustment in accordance with Condition 9 (*Adjustments to the Conversion Price*).

“**Conversion Shares**” means the ordinary shares of the Issuer with a nominal value of 100 pence each (as at the Issue Date) to be issued to the Conversion Shares Depositary (or to the relevant recipient in accordance with these Conditions) following an Automatic Conversion, in such number as determined in accordance with Condition 8(c)(ii).

“**Conversion Shares Depositary**” means a financial institution, trust company, depositary entity, nominee entity or similar entity (which in each such case is wholly independent of the Issuer) to be appointed by the Issuer on or prior to any date when a function ascribed to the Conversion Shares Depositary in these Conditions is required to be performed, to perform such functions and which as a condition of such appointment, will be required to undertake, for the benefit of the Holders, to hold the Conversion Shares (and any Conversion Shares Offer Consideration) on behalf of such Holders in one or more segregated accounts unless otherwise required for the purposes of the Conversion Shares Offer and, in any event, on terms consistent with these Conditions.

“**Conversion Shares Offer**” has the meaning given to it in Condition 8(d) (*Conversion Share Offer*).

“**Conversion Shares Offer Agent**” means the agent(s), if any, to be appointed on behalf of the Conversion Shares Depositary by the Issuer, in its sole and absolute discretion, to act as placement or other agent of the Conversion Shares Depositary to facilitate a Conversion Shares Offer.

“**Conversion Shares Offer Consideration**” means in respect of each Note (i) if all of the Conversion Shares are sold in the Conversion Shares Offer, the *pro rata* share of the cash proceeds from the sale of the Conversion Shares attributable to such Note, (ii) if some but not all of the Conversion Shares are sold in the Conversion Shares Offer, (x) the *pro rata* share of the cash proceeds from the sale of the Conversion Shares attributable to such Note and (y) the *pro rata* share of the Conversion Shares not sold pursuant to the Conversion Shares Offer attributable to such Note rounded down to the nearest whole number of Conversion Shares, and (iii) if no Conversion Shares are sold in a Conversion Shares Offer, the relevant Conversion Shares attributable to such Note rounded down to the nearest whole number of Conversion Shares, subject in the case of (i) and (ii)(x) above to deduction from any such cash proceeds of an amount equal to the *pro rata* share of any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the transfer of any interest in the Conversion Shares to the Conversion Shares Depositary as a consequence of the Conversion Shares Offer.

“**Conversion Shares Offer Notice**” means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 14 (*Notices*) specifying (i) whether or not the Issuer has elected that a Conversion Shares Offer be made and, if so, the Conversion Shares Offer Period, (ii) the Suspension Date and (iii) details of the Conversion Shares Depositary or, if the Issuer has been unable to appoint a Conversion Shares Depositary, such other arrangements for the issuance and/or delivery of the Conversion Shares or the Conversion Shares Offer Consideration, as applicable, to the Holders as it shall consider reasonable in the circumstances.

“**Conversion Shares Offer Period**” means the period during which the Conversion Shares Offer may occur, which period shall end no later than 40 Business Days after the delivery of the Conversion Shares Offer Notice.

“**Conversion Shares Settlement Notice**” means a written notice to be delivered by a Holder to the Conversion Shares Depositary (or to the relevant recipient in accordance with these Conditions), with a copy to the Trustee, no earlier than the Suspension Date containing the following information: (i) the name of the Holder, (ii) the aggregate amount of the Authorised Denomination of the Notes held by such Holder on the date of such notice, (iii) the name to be entered in the Issuer’s share register, (iv) the details of the CREST or other clearing system account or, if the Conversion Shares are not a participating

security in CREST or another clearing system, the address to which the Conversion Shares (or the Conversion Share component, if any, of any Conversion Shares Offer Consideration) should be delivered, (v) the details of the sterling account maintained with a bank in London for the payment of any cash (if applicable in accordance with these Conditions) and (vi) such other details as may be required by the Conversion Shares Depositary.

“**Conversion Shares Settlement Request Notice**” means the written notice to be delivered by the Issuer to the Trustee directly and to the Holders in accordance with Condition 14 (*Notices*) on the Suspension Date requesting that Holders complete a Conversion Shares Settlement Notice and specifying (i) the Notice Cut-off Date and (ii) the Final Cancellation Date.

“**Current Market Price**” means, in respect of an ordinary share at a particular date, the average of the daily Volume Weighted Average Price of an ordinary share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; **provided that**, if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Cash Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Cash Dividend (or cum- any other entitlement), then:

- (i) if the ordinary shares to be issued do not rank for the Cash Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the ordinary shares shall have been based on a price cum-Cash Dividend (or cum- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
- (ii) if the ordinary shares to be issued do rank for the Cash Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the ordinary shares shall have been based on a price ex-Cash Dividend (or ex- any other entitlement) shall, for the purposes of this definition, be deemed to be the amount thereof increased by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and **provided further that**, if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Cash Dividend (or cum- any other entitlement) in respect of a Cash Dividend (or other entitlement) which has been declared or announced but the ordinary shares to be issued do not rank for that Cash Dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount equal to such Cash Dividend or entitlement per ordinary share as at the date of first public announcement relating to such Cash Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit, and **provided further that**, if the Volume Weighted Average Price of an ordinary share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price

is available in the relevant period, the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

**“Day Count Fraction”** means:

- (i) where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date (the **“Accrual Period”**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) two; or
- (ii) where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) two; and
  - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) two.

**“dealing day”** means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which ordinary shares, securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

**“Determination Date”** means 5 February and 5 August in any year.

**“Determination Period”** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where the Issue Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

**“Distributable Items”** shall have the meaning assigned to such term in the Capital Regulations then applicable, but amended so that for so long as there is any reference therein to “before distributions to holders of own funds instruments” it shall be read as a reference to “before distributions to holders of Parity Securities, the Notes or any Junior Securities”.

**“Effective Date”** means, for the purposes of Condition 9(a)(iii) (*Adjustments to the Conversion Price*), the first date on which the ordinary shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange and, for the purposes of Condition 9(a)(iv) (*Adjustments to the Conversion Price*), the first date on which the ordinary shares are traded ex- the relevant Cash Dividend on the Relevant Stock Exchange.

**“Exempt Newco Scheme”** means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on the Relevant Stock Exchange or (ii) admitted to listing on such other Recognised Stock Exchange as the Issuer or Newco may determine.

**“Existing Shareholders”** has the meaning given to it in the definition of Newco Scheme.

**“Extraordinary Dividend”** means any Cash Dividend that is expressly declared by the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or special return of value to shareholders as a class or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

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

**“Fair Market Value”** means, on any date (the **“FMV Date”**):

- (i) with respect to a Cash Dividend, the amount of such Cash Dividend;
- (ii) with respect to any other cash amount, the amount of such cash;
- (iii) with respect to any securities, options, warrants or other rights that are publicly traded on a Relevant Stock Exchange of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the arithmetic mean of the daily Closing Prices of such securities, options, warrants or other rights during the period of five dealing days on the Relevant Stock Exchange commencing on such date (or, if later, the date (the **“Adjusted FMV Date”**) which falls on the first such dealing day on which such securities, options, warrants or other rights are publicly traded, provided that where such Adjusted FMV Date falls after the fifth day following the FMV Date, the Fair Market Value of such securities, options, warrants or other rights shall instead be determined pursuant to paragraph (iv) below, and no such Adjusted FMV Date shall be deemed to apply) or such shorter period as such securities, options, warrants or other rights are publicly traded;
- (iv) with respect to any securities, options, warrants or other rights that are not publicly traded on a Relevant Stock Exchange of adequate liquidity (as aforesaid), the fair market value of such securities, options, warrants or other rights as determined in good faith by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate.

Such amounts shall, in the case of (i) and (ii) above, be translated (if expressed in a currency other than the Relevant Currency) into the Relevant Currency (if declared, announced, made, paid or payable in a currency other than the Relevant Currency, and if the relevant dividend is payable at the option of the Issuer or a shareholder of the Issuer in any currency additional to the Relevant Currency, the relevant dividend shall be treated as payable in the Relevant Currency) at the rate of exchange (if any) used to determine the amount payable to shareholders of the Issuer who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and, in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit.

**“FATCA Withholding Tax”** has the meaning given to it in Condition 10(a) (*Payment without withholding*).

**“Final Cancellation Date”** means the date on which the Notes in relation to which no Conversion Shares Settlement Notice has been received by the Conversion Shares Depository on or before the Notice Cut-off Date shall be cancelled, which date may be up to 12 Business Days following the Notice Cut-off Date.

**“First Reset Date”** has the meaning given to it in Condition 5(b) (*Interest Rate and Interest Payment Dates*).

“**Gilt Yield Quotations**” has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

“**Governmental Entity**” means (i) the United Kingdom Government, (ii) an agency of the United Kingdom Government or (iii) a person or entity (other than a body corporate) controlled by the United Kingdom Government or any such agency referred to in (ii). If the Issuer is then organised in another jurisdiction, the references to “United Kingdom Government” shall be read as references to the government of such other jurisdiction.

“**Holder**” has the meaning given to it in Condition 1(b) (*Title*).

“**Independent Financial Adviser**” means an independent financial institution or financial adviser of international repute appointed by the Issuer at its own expense.

“**Initial Interest Rate**” has the meaning given to it in Condition 5(b)(i) (*Interest Rate and Interest Payment Dates*).

“**Insolvency Act**” means the Insolvency Act 1986.

“**Interest Amount**” means the amount of interest payable on each Note on an Interest Payment Date, subject to Condition 5 (*Interest*).

“**Interest Payment Date**” has the meaning given to it in Condition 5(b) (*Interest Rate and Interest Payment Dates*).

“**Interest Period**” has the meaning given to it in Condition 5(b) (*Interest Rate and Interest Payment Dates*).

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

“**Issue Date**” means 5 February 2026.

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

“**Junior Securities**” means any ordinary shares, securities or other obligations (including any guarantee, credit support or similar undertaking) of the Issuer ranking, or expressed to rank, junior to the Notes in a Winding Up or an Administration occurring prior to a Trigger Event.

“**LSE**” means the London Stock Exchange plc.

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

“**Maximum Distributable Amount**” has the meaning given to it in Condition 6(a) (*Cancellation of interest*).

The “**New Conversion Condition**” shall be satisfied if (a) by not later than seven Business Days following the completion of a Takeover Event where the Acquirer is an Approved Entity, there shall be arrangements in place with the Trustee for the benefit of the Holders for the Approved Entity to provide for issuance of Approved Entity Shares following an Automatic Conversion of the Notes on terms *mutatis mutandis* identical to Condition 8(a) (*Automatic Conversion on a Trigger Event*) and 8(b) (*Consequences of Automatic Conversion*) and (b) the Issuer, in its sole and absolute discretion has determined that such arrangements are in the best interest of the Issuer and its shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Holders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body).

“**New Conversion Price**” means the amount determined in accordance with the following formula, which shall apply from the QTE Effective Date:

$$\text{NCP} = \text{ECP} * (\text{VWAPAES}/\text{VWAPOS})$$

where:

“**NCP**” is the New Conversion Price.

“**ECP**” is the Conversion Price in effect on the dealing day immediately prior to the QTE Effective Date.

“**VWAPAES**” means the average of the Volume Weighted Average Price of the Approved Entity Shares (translated, if necessary, into sterling at the Prevailing Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day prior to the closing date of the Takeover Event (and where references in the definition of “**Volume Weighted Average Price**” to “**ordinary share**” shall be construed as a reference to the Approved Entity Shares and in the definition of “**dealing day**,” references to the “**Relevant Stock Exchange**” shall be to the relevant Recognised Stock Exchange on which the Approved Entity Shares are then listed, admitted to trading or quoted or accepted for dealing).

“**VWAPOS**” is the average of the Volume Weighted Average Price of the ordinary shares (translated, if necessary, into sterling at the Prevailing Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day immediately prior to the closing date of the Takeover Event.

“**Newco**” has the meaning given to it in the definition of Newco Scheme.

“**Newco Scheme**” means a scheme of arrangement or analogous proceeding (“**Scheme of Arrangement**”) which effects the interposition of a limited liability company (“**Newco**”) between the shareholders of the Issuer immediately prior to the Scheme of Arrangement (the “**Existing Shareholders**”) and the Issuer; **provided that:** (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

“**Notes**” has the meaning given to it in the preamble to these Conditions.

“**Notice Cut-off Date**” means the date specified as such in the Conversion Shares Settlement Request Notice, which date shall be at least 40 Business Days following the Suspension Date.

“**Notional Preference Share**” has the meaning given to it in Condition 4(b) (*Winding Up or Administration occurring prior to a Trigger Event*).

“**ordinary shares**” means (a) prior to the QTE Effective Date, fully paid ordinary shares in the capital of the Issuer with a nominal value of 100 pence each (as at the Issue Date) and (b) on and after the QTE Effective Date, the relevant Approved Entity Shares.

“**own funds**” has the meaning given to it (or any successor term) from time to time in the Capital Regulations.

“**own funds instruments**” has the meaning given to it (or any successor term) from time to time in the Capital Regulations.

“**Parity Securities**” means any preference shares, securities or other obligations of the Issuer (including any guarantee or other support obligations) which rank, or are expressed to rank, *pari passu* with the Issuer’s obligations in respect of the Notes on a Winding Up or an Administration occurring prior to a Trigger Event (and, shall include any other securities qualifying at issuance as Additional Tier 1 Capital of the Issuer (if any) from time to time outstanding).

“**Paying Agent**” means each entity appointed as a paying agent from time to time pursuant to the Agency Agreement, including the Principal Paying Agent.

“**payment business day**” has the meaning given to it in Condition 6(d) (*Payment on Business Days*).

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) or other legal entity.

“**PRA**” means the 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 Regulatory Group.

“**PRA Permission**” means, in relation to any action, such notice, permission, consent, approval, non-objection and/or waiver, if any, as is required therefor under the prevailing Capital Regulations.

“**PRA Rulebook**” means the rulebook of the PRA, as amended from time to time.

“**Prevailing Rate**” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon, London time, on that date as appearing on or derived from the relevant page on Bloomberg (or such other information service provider that displays the relevant information) or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon, London time, on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the relevant page on Bloomberg (or such other information service provider that displays the relevant information), the rate determined in such other manner as an Independent Financial Adviser shall in good faith prescribe.

“**Principal Paying Agent**” means Citibank, N.A., London Branch or any successor principal paying agent appointed from time to time in connection with the Notes.

“**QTE Effective Date**” means the date with effect from which the New Conversion Condition shall have been satisfied.

“**Qualifying Additional Tier 1 Notes**” means securities issued directly by the Issuer that:

- (a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an Independent Financial Adviser) and provided that a certification by two Authorised Signatories of the Issuer to such effect (including as to such

consultation) and certifying that the relevant circumstances referred to in Condition 7(f) (*Substitution or Variation*) exist and that the conditions referred to therein have been satisfied, shall have been delivered to the Trustee prior to the issue or, as appropriate, variation of the Notes, and, subject thereto, which:

- (i) contain terms which comply with the then current minimum requirements of the Capital Regulations in relation to Additional Tier 1 Capital, required to ensure that such Qualifying Additional Tier 1 Notes qualify as Additional Tier 1 Capital;
  - (ii) have the same principal amount as the outstanding principal amount of the Notes immediately prior to the substitution or variation and include terms which provide for the same Interest Rate or rate of return from time to time applying to the Notes, and preserve the Interest Payment Dates;
  - (iii) rank at least *pari passu* with the ranking of the Notes;
  - (iv) preserve any existing rights under the Conditions to any accrued interest or other amounts which have not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation (but without prejudice to the right of the Issuer to cancel the same under the terms of the Qualifying Additional Tier 1 Notes);
  - (v) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption;
  - (vi) are issued in the same currency as the Notes;
  - (vii) where the Notes had a published rating solicited by the Issuer from one or more rating agencies immediately prior to their substitution or variation, have been assigned by each such rating agency, or each such rating agency has informed the Issuer by an announcement or otherwise of its intention to assign, an equal or higher published solicited rating; and
  - (viii) qualify as hybrid capital instruments as defined in Section 475C of the Corporation Tax Act 2009, to the extent applicable (or are afforded equivalent treatment under any applicable successor or replacement legislation).
- (b) if the Notes are listed on the International Securities Market of the London Stock Exchange plc (the “ISM”) or any other stock exchange or market (i) are listed on the ISM or (ii) listed on such other stock exchange or market at that time as selected by the Issuer.

“**Qualifying Takeover Event**” means a Takeover Event where: (i) the Acquirer is an Approved Entity; and (ii) the New Conversion Condition is satisfied.

“**Recognised Stock Exchange**” means a Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in the United Kingdom or another OECD member state.

“**Record Date**” has the meaning given to it in Condition 6(f) (*Record date*).

“**Reference Date**” means the later of (i) the Issue Date and (ii) the latest date (if any) on which any further Notes have been issued pursuant to Condition 17 (*Further Issues*).

“**Register**” has the meaning given to it in Condition 1(b) (*Title*).

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

“**Regulated Market**” means a regulated market as defined by Article 4.1(21) of Directive 2014/65/EC of the European Parliament and of the Council on markets in financial instruments or as defined in Regulation (EU) No 600/2014 as it forms part of domestic law in the United Kingdom by virtue of the European Union (Withdrawal) Act 2018, as each may be amended or replaced from time to time.

“**Regulatory Group**” means the Issuer, its subsidiary undertakings, participations, participating interests and any subsidiary undertakings, participations or participating interests held (directly or indirectly) by any of its subsidiary undertakings from time to time and any other undertakings from time to time consolidated with the Issuer for regulatory purposes, in each case in accordance with the Capital Regulations then in effect.

“**Regulatory Preconditions**” means, in relation to any redemption or purchase of the Notes, to the extent then required by the Capital Regulations:

- (i) either:
  - (A) before or at the same time as such redemption or purchase the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
  - (B) the Issuer having demonstrated to the satisfaction of the PRA that the own funds and eligible liabilities of the Regulatory Group would, following such redemption or purchase, exceed the requirements laid down in the Capital Regulations by a margin that the PRA considers necessary at such time; and
- (ii) in the case of a redemption pursuant to Condition 7(c) (*Redemption for regulatory reasons*), 7(d) (*Redemption for tax reasons*) or 7(e) (*Clean-up Call Option*) or a purchase pursuant to Condition 7(g) (*Purchases*) occurring prior to the fifth anniversary of the Reference Date only:
  - (A) in the case of a redemption due to the occurrence of a Capital Disqualification Event, the PRA considering such change to be sufficiently certain and the Issuer having demonstrated to the satisfaction of the PRA that the occurrence of such Capital Disqualification Event was not reasonably foreseeable as at the Reference Date;
  - (B) in the case of a redemption due to the occurrence of a Tax Event, the Issuer having demonstrated to the satisfaction of the PRA that such Tax Event is material and that the occurrence of such Tax Event was not reasonably foreseeable as at the Reference Date;
  - (C) in the case of a redemption pursuant to Condition 7(e) (*Clean-up Call Option*) or purchase pursuant to Condition 7(g) (*Purchases*), the Issuer having, before or at the same time as such redemption or purchase, replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer, and the PRA having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view; or
  - (D) in the case of a purchase pursuant to Condition 7(g) (*Purchases*):
    - (i) the relevant Notes are being purchased for market-making purposes in accordance with the Capital Regulations; or

- (ii) the PRA considering that the repurchase of the relevant Notes would materially enhance the safety and soundness of the Issuer,

**provided that** if, at the time of such redemption or purchase the Capital Regulations permit the redemption or purchase 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 alternative or additional pre-condition(s) in addition to or in lieu of the above pre-conditions.

The granting of the PRA Permission in respect of such redemption or purchase shall be treated (without liability) by the Issuer, the Trustee, the Holders and all other interested parties as conclusive and sufficient evidence of the satisfaction of these pre-conditions.

**“Relevant Currency”** means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination the LSE is not the Relevant Stock Exchange, the currency in which the ordinary shares are quoted or dealt in on the Relevant Stock Exchange at such time.

**“Relevant Date”** means (A) in respect of any payment other than a sum to be paid by the Issuer in a Winding Up or an Administration, 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 Holders and (B) in respect of a sum to be paid by the Issuer in a Winding Up or an Administration, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding up (or, in the case of an Administration, one day prior to the date on which any dividend is distributed).

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

**“Relevant Stock Exchange”** means (i) with respect to the ordinary shares of the Issuer, the LSE or, if at the relevant time the ordinary shares are not at that time listed and admitted to trading on the LSE, the principal stock exchange or securities market on which the ordinary shares are then listed, admitted to trading or quoted or accepted for dealing and (ii) with respect to any other securities, options, warrants or other rights, the principal stock exchange or securities market (if any) on which such securities, options, warrants or other rights, as the case may be are then listed, admitted to trading or quoted or accepted for dealing.

**“Reserved Matter”** has the meaning given to it in Condition 15(a) (*Meetings of Holders, Modification, Waivers and Substitution*).

**“Reset Date”** has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

**“Reset Determination Date”** has the meaning given to it Condition 5(d) (*Reset Interest Rate*).

**“Reset Interest Rate”** has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

**“Reset Period”** has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

**“Reset Reference Banks”** has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

**“Reset Reference Rate”** has the meaning given to it in Condition 5(d) (*Reset Interest Rate*).

**“Risk Weighted Assets”** means, at any time, the aggregate amount, expressed in pounds sterling, of the total risk exposure amount of the Regulatory Group at such time, as calculated by the Issuer on a

consolidated basis, in accordance with the Capital Regulations applicable to the Regulatory Group at such time, but without applying any relevant transitional provisions then in effect under the Capital Regulations (unless the Capital Regulations otherwise require or permit (explicitly or without restricting) that such transitional provisions are applied for the purposes of determining whether a Trigger Event has occurred) (which calculation shall be binding on the Trustee and the Holders).

“**Scheme of Arrangement**” has the meaning given to it in the definition of Newco Scheme.

“**secondary non-preferential debts**” shall have the meaning given to it in the Insolvency Act.

“**Senior Creditors**” means creditors of the Issuer: (a) who are unsubordinated creditors of the Issuer; (b) whose claims are, or are expressed to be, subordinated (whether only in the event of a winding up of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer but not further or otherwise; (c) who are creditors in respect of any secondary non-preferential debts; or (d) whose claims are, or are expressed to be, junior to the claims of other creditors of the Issuer, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Holders in a winding up occurring prior to a Trigger Event (and, for the avoidance of doubt, Senior Creditors shall include the holders of Tier 2 Capital instruments).

“**Settlement Date**” means (i) with respect to any Note in relation to which a Conversion Shares Settlement Notice is received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the later of (a) the date that is two Business Days after the end of the relevant Conversion Shares Offer Period and (b) the date that is two Business Days after the date on which such Conversion Shares Settlement Notice has been received by the Conversion Shares Depositary and (ii) with respect to any Note in relation to which a Conversion Shares Settlement Notice is not received by the Conversion Shares Depositary on or before the Notice Cut-off Date, the date on which the Conversion Shares Depositary delivers the relevant Conversion Shares or Conversion Share component, if any, of any Conversion Shares Offer Consideration, as applicable.

“**shareholders**” means the holders of ordinary shares.

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

“**£**”, “**sterling**”, “**pounds sterling**” and “**pence**” are to the lawful currency for the time being of the United Kingdom.

“**Subsidiary**” has the meaning given to it in Section 1159 of the Companies Act.

“**Suspension Date**” means, with respect to each Clearing System, the date specified in the Conversion Shares Offer Notice as the date on which such Clearing System shall suspend all clearance and settlement of transactions in the Notes in accordance with its rules and procedures, which date shall be no later than 38 Business Days after the delivery of the Conversion Shares Offer Notice to such Clearing System (and, if the Issuer elects that a Conversion Shares Offer be made, such date shall be at least two Business Days prior to the end of the relevant Conversion Shares Offer Period).

A “**Takeover Event**” shall occur if any person or persons acting in concert (as defined in the Takeover Code of the UK Panel on Takeovers and Mergers) acquires control of the Issuer, other than as a result of a Newco Scheme.

“**Takeover Event Notice**” means the notice to the Trustee and the Holders in accordance with Condition 14 (*Notices*) notifying them that a Takeover Event has occurred and specifying: (1) the identity of the Acquirer; (2) whether the Takeover Event is a Qualifying Takeover Event or not; (3) in the case of a Qualifying Takeover Event, if determined at such time, the New Conversion Price; and (4) if applicable, the QTE Effective Date.

“**Tax Event**” has the meaning given to it in Condition 7(d) (*Redemption for tax reasons*).

“**Taxes**” has the meaning given to it in Condition 10(a) (*Payment without withholding*).

“**Tier 1 Capital**” has the meaning given to it (or any successor such term) from time to time in the Capital Regulations.

“**Tier 2 Capital**” has the meaning given to it (or any successor such term) from time to time in the Capital Regulations.

“**Transfer Agent**” means Citibank, N.A., London Branch or any successor or other transfer agent appointed from time to time in connection with the Notes.

“**Trigger Event**” means the Common Equity Tier 1 Capital Ratio of the Regulatory Group falls below 7.00 per cent.

“**Trustee**” means Citicorp Trustee Company Limited or such other trustee appointed by the Issuer from time to time in respect of the Notes in accordance with the Conditions and the Trust Deed.

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

“**Volume Weighted Average Price**” means, in respect of an ordinary share (or an Approved Entity Share, as applicable) on any dealing day, the order book volume- weighted average price of an ordinary share (or Approved Entity Share, as applicable) published by or derived from the relevant Bloomberg page or such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, **provided that** if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an ordinary share (or an Approved Entity Share, as applicable) in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or determined as an Independent Financial Adviser might otherwise determine in good faith to be appropriate.

“**Winding Up**” has the meaning given to it in Condition 4(b) (*Winding Up or Administration occurring prior to a Trigger Event*).

(b) *Construction of certain references*

In these Conditions, unless otherwise specified or unless the context otherwise requires:

- (i) references to Notes being “outstanding” shall be construed in accordance with the Trust Deed;
- (ii) references to any issue or offer or grant to shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all shareholders, as the case may be, other than shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant;
- (iii) references to “ordinary share capital” has the meaning provided in Section 1119 of the Corporation Tax Act 2010 and “equity share capital” has the meaning provided in Section 548 of the Companies Act;
- (iv) references to the “issue” of Conversion Shares shall include the transfer and/or delivery of Conversion Shares by the Issuer or any of its Subsidiaries, whether newly issued and allotted or previously existing;

- (v) ordinary shares held by the Issuer or any of its Subsidiaries shall not be considered as or treated as “in issue”;
- (vi) references to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment; and
- (vii) headings and sub-headings are for ease of reference only and shall not affect the construction of these Conditions.

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

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

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

### Exchange for Individual Certificates

Registration of title to Notes in a name other than that of a 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, (ii) a Winding Up or an Administration occurs or (iii) the Issuer fails to pay any amount that has become due and payable under the Notes as provided in Condition 12(a)(i) (*Non-payment*). The Issuer shall notify the registered holder of the Global Certificate of the occurrence of any of the events specified in (i), (ii) or (iii) as soon as practicable thereafter.

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

### Accountholder

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

## **Transfers**

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

## **Payments**

Payments due in respect of Notes represented by the Global Certificate which, according to the Conditions, require surrender or endorsement of a Certificate, shall be made to or to the order of the registered holder and such payment will discharge the obligations of the Issuer in respect of the relevant payment under the Notes. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to or to the order of the registered holder.

## **Notices**

Notwithstanding Condition 14 (*Notices*) and Condition 8 (*Automatic Conversion*), so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of the Clearing Systems, or any other clearing system (an “**Alternative Clearing System**”), notices to Holders 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 14 (*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 Holders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System (as the case may be) as aforesaid.

## **Conversion Shares Settlement Notice**

Notwithstanding Condition 8(e)(vii) (*Automatic Conversion – Settlement Procedure*), so long as the Notes are represented by the Global Certificate deposited with a depository or a common depository for the Clearing Systems or an Alternative Clearing System, a Conversion Shares Settlement Notice may be given by a Holder by delivering it to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System and, in any case, such notices shall be deemed to have been delivered to the Conversion Shares Depository on the date of delivery of such notice to the Conversion Shares Depository by Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System and/or its depository or common depository.

## **Cash component**

Notwithstanding Condition 8(e)(iii) (*Automatic Conversion – Settlement Procedure*), so long as the Notes are represented by the Global Certificate deposited with a depository or a common depository for the Clearing Systems or an Alternative Clearing System, the cash component, if any, of any Conversion Shares Offer Consideration will be delivered through the facilities of the Clearing Systems on or around the date on which the Conversion Shares Offer Period ends, subject to the applicable rules and operating procedures of the Clearing System in effect at such time.

## **Payment Business Day**

In the case of all payments made in respect of the Global Certificate, so long as the Global Certificate is held on behalf of a Clearing System or an Alternative Clearing System, the definition for “**payment business day**” in Condition 6(d) (*Payment 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 Certificate, interest will be calculated in respect of the aggregate principal amount of the Notes represented by the Global Certificate (and not per Calculation Amount as provided in Condition 5(c) (*Calculation of interest*)) but otherwise in accordance with Condition 5 (*Interest*).

## **Clearing Systems**

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

## **Electronic Consent and Written Resolution**

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

- (a) where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Holders 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 Holders, 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 an Extraordinary Resolution in writing has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (i) by accountholders in the Clearing Systems and/or an Alternative Clearing System, as the case may be, with entitlements to such Global Certificate and/or, (ii) where the accountholders hold any such

entitlement on behalf of another person, on written consent from or written instruction by the person identified by that Accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and, in the case of (ii) above, the Clearing Systems and/or an Alternative Clearing System, as the case may be, and the accountholder identified by the relevant clearing system for the purposes of (ii) above. Any Extraordinary Resolution in writing passed in such manner shall be binding on all Holders, 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 EasyWay or Clearstream, Luxembourg's Xact Web Portal 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 proceeds of the issue of the Notes will be on-lent to Paragon Bank by way of the Issuer purchasing an equivalent principal amount of additional tier 1 securities to be issued by Paragon Bank for its own capital purposes.

The gross proceeds of the issue of the Notes will be used for the general corporate purposes of the Group.

## **BUSINESS DESCRIPTION**

### **Incorporation and status**

The Issuer was incorporated in England (registered number 02336032) on 17 January 1989 as a public limited company under the Companies Act 1985. The Issuer'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. On 3 March 1997, it changed its name to The Paragon Group of Companies PLC, and on 21 September 2017, following its reorganisation into a banking group, changed to its current name of Paragon Banking Group PLC. The Issuer's registered office and head office is 51 Homer Road, Solihull, West Midlands B91 3QJ, United Kingdom.

The Issuer's ordinary shares are listed on the official list of the FCA and traded on the main market of the London Stock Exchange. The Issuer is currently a FTSE 250 company, having first become a FTSE 250 company in 2002, and operates through its subsidiary businesses.

As at the date of this Offering Circular, the Issuer has a long-term issuer default rating of BBB+ by Fitch, and a short-term issuer default rating of F2 by Fitch. This is classified by Fitch as an investment grade rating. The Issuer also has a long-term unsecured, unguaranteed and unsubordinated debt obligation rating of Baa2 by Moody's.

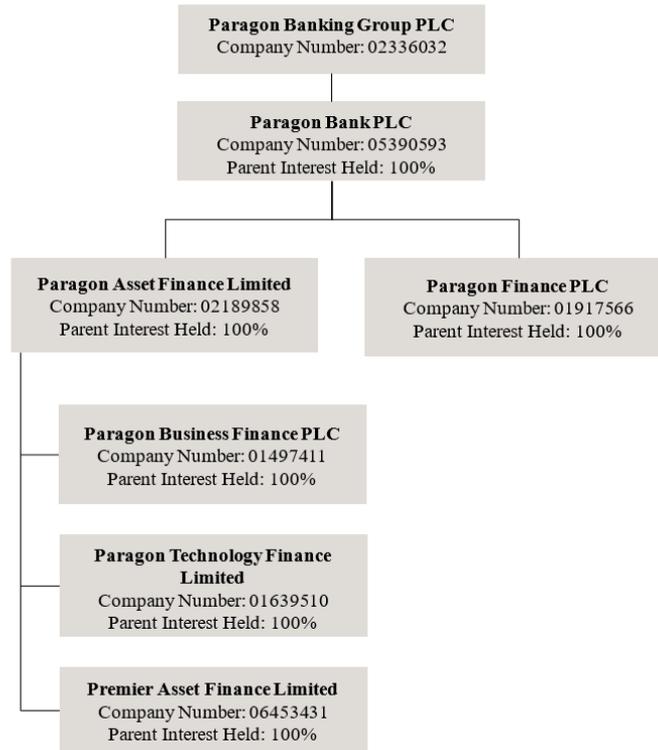
### **History and overview**

The Group is a specialist banking group, offering a range of savings products and provides finance for landlords, small businesses and property developers in the UK. The Group continues to expand its presence in the buy-to-let mortgage market and commercial lending, including asset finance to SMEs and development finance.

The Group began as a specialist residential mortgage lender in 1985. A pioneer in buy-to-let lending, in 1995 the Group launched its first mortgage products for UK landlords in the growing private rented sector, achieving a 10 per cent. share in the buy-to-let market by 2006. After successfully navigating the financial crisis in 2008, the Group returned to new lending in 2010. In 2014, the establishment of Paragon Bank enabled the Group to diversify its funding sources and enter new lending markets. Paragon Bank was authorised to take retail deposits by the PRA on 8 May 2014 and new lending by the Group is funded primarily through its personal savings operation. In 2017, the Group transformed its business model to become a banking group.

### **Structure**

The structure chart below shows the simplified structure of the Group as at the date of this Offering Circular:



## Principal Activities

The Group has two operating divisions: Mortgage Lending and Commercial Lending. These divisions are supported by the Group through the provision of capital and central services, including loan servicing, marketing, information technology and legal support. This operating model combines sector specialism with centralised resources, enabling economies of scale and the development of centres of excellence.

## Mortgage Lending

The Group's Mortgage Lending division principally provides buy-to-let mortgages secured on UK residential property to specialist landlords. The Group has been active in this market for over a quarter of a century, through a wide range of economic environments. This gives the Group an unparalleled understanding of this sector of the mortgage market and the requirements of the specialist landlords which form its customer base.

The Group also offers a limited volume of loans to non-specialist landlords, although this activity has become increasingly non-core. The mortgage division also holds legacy assets from discontinued product lines, including residential first and second charge mortgage loans.

The Group's focus on the specialist buy-to-let market facilitates detailed, case-by-case underwriting, where its unique approach to managing property risk and building customer relationships differentiate it from both mass-market and other specialist lenders.

Specialist intermediaries are the principal source of the Group's buy-to-let loan applications and it continues to focus strategically on ensuring the service offered to intermediaries is excellent.

## Commercial Lending

The Group's Commercial Lending division comprises four specialist business lines, lending to commercial organisations, mostly on a secured basis. The division had been a major source of growth within the Group.

The four business lines are:

- Development finance: funding smaller, mostly residential, property development projects and an increasing number of more specialist properties, including student accommodation and care homes
- SME lending: providing leasing for business assets, primarily construction equipment and wheeled plant equipment, and unsecured cash flow lending for professional services firms, amongst other products
- Structured lending: providing finance for niche non-bank lenders
- Motor finance: focused on specialist parts of the sector, including light commercial vehicles and motor homes

Each of these business lines is led by a specialist management team with a strong understanding of their market. The principal competitors for each are small banks and non-bank lenders. The Group operates principally in markets where the largest lenders have little presence, creating both a credit availability issue for customers and significant opportunities for the Group.

The Group's strategy for Commercial Lending is to target niches (either product types or customer groups) where its skill sets and customer service culture can be best applied, and its capital deployed to optimise the relationship between growth, risk and return.

### Management of the Issuer

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 East	Chair Chair: Nomination Committee Member: Risk and Compliance and Remuneration Committees	Director: RCWJ Limited
Nigel Terrington	Chief Executive Officer ("CEO")	Trustee of Banking on Barnardo's Committee
Richard Woodman	Chief Financial Officer ("CFO")	Director: Woodman Portfolio Holdings Limited Director: Rose Wine Ltd Director: Chalet Woodman S.à r.l.
Hugo Tudor	Non-Executive Director	Director: Damus Capital Limited Director: Vitec Global Limited, Vitec Air Systems Limited and Vitec Aspida Limited Director: Porthcothan Property Limited Director: Sevenoaks Vine Cricket Club Ltd

<b>Name</b>	<b>Role</b>	<b>Principal activities outside the Group</b>
Alison Morris	Non-Executive Director Chair: Audit Committee Member: Remuneration, Risk and Compliance and Nomination Committees	Non-executive director of Quilter plc, Quilter Life & Pensions Limited, Quilter Investment Platform Limited and Quilter Financial Planning Limited, all part of the Quilter plc group Non-executive director of Sabre Insurance Group PLC and Sabre Insurance Company Limited Chair of the Audit Committee at Sabre Insurance Group Chair of Audit Committee at Quilter plc
Barbara Ridpath	Non-Executive Director Member: Audit, Nomination and Risk and Compliance Committees	Non-executive director of ORX in Switzerland, a trade association for operational risk professionals and a director of ORX UK Limited Chair of the Ethical Investment Advisory Group of the Church of England Member of the International Advisory Council of the Institute of Business Ethics
Graeme Yorston	Non-Executive Director Member: Nomination, Remuneration and Risk and Compliance Committees	Director: Calon Lan Consultancy
Peter Hill	Non-Executive Director Chair: Risk and Compliance Committee Member: Audit Committee	Chair of Mortgage Brain Holdings Limited Director, Trustee, Secretary, Treasurer and Chair of the Finance & Governance Committee of Leeds Rugby Foundation Director, Secretary, Deputy Chair and Treasurer of the Leeds Rugby Foundation Services Limited
Tanvi Davda	Non-Executive Director Chair: Remuneration Committee Member: Nomination, Audit and Risk and Compliance Committees	Director of Ashrah Advisory Limited Director: Luminor Bank AS

Name	Role	Principal activities outside the Group
Zoe Howorth	Non-Executive Director Member: Risk and Compliance and Remuneration Committees	Non-executive Director of AG Barr PLC Non-executive Director of International Schools Partnership Limited Non-executive director of Project Step TopCo Limited

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. Any potential conflicts are kept under review and recusal from Board discussions is undertaken where appropriate.

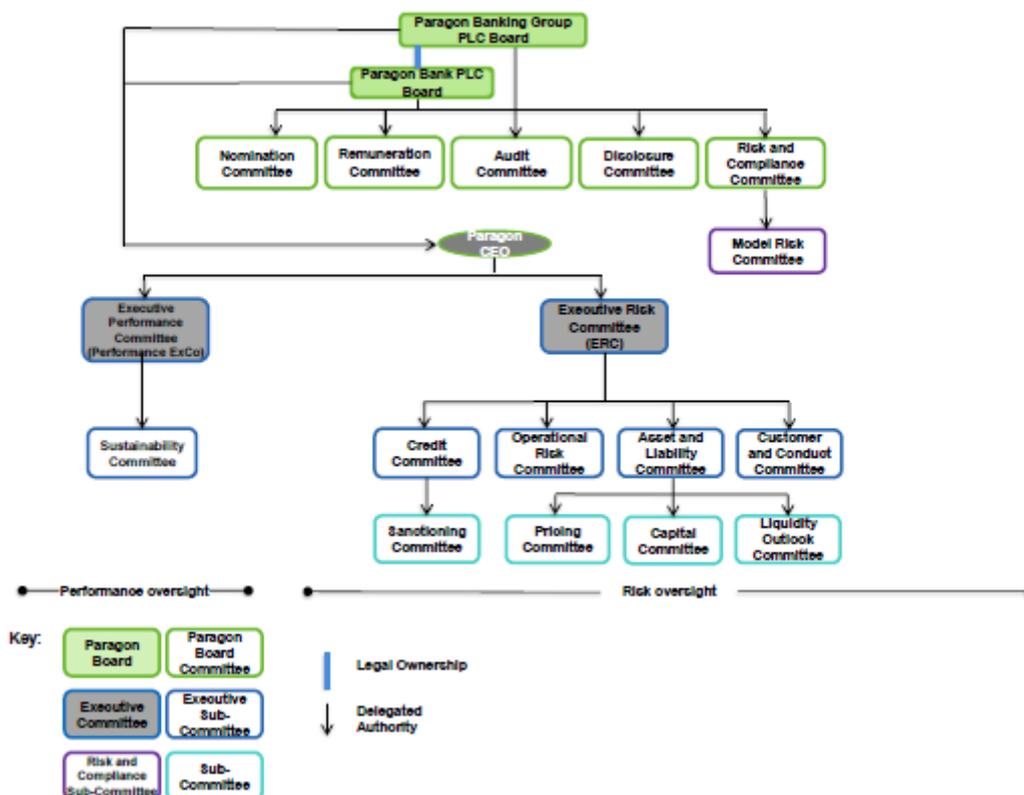
The employees of the Group are employed by Paragon Finance PLC, a subsidiary of the Issuer.

### Risk Governance

The Board of Directors has overall responsibility for the approach to risk management and internal control within the Group. The Board's approach to governance and the way it discharges these duties is set out below.

### Committee structures

The Group has several board sub-committees and executive committees providing risk governance, with executive committees taking their mandate directly from the CEO. The structure of the board and executive committees is shown below.



The oversight of risk in the Group is primarily conducted through the committees described below.

### **Risk and Compliance Committee**

The Risk and Compliance Committee (the “**Committee**”) assists the Board in fulfilling its responsibilities for risk management. It comprises the independent non-executive directors and the Chair of the Board. The terms of reference, which were reviewed and approved by the Board in October 2025, align with the UK Corporate Governance Code and good practice. The Committee’s responsibilities include reviewing on behalf of the Board:

- Recommendations and matters for escalation from the Executive Risk Committee
- The Group’s current and future risk appetite including the extent and categories of risk which the Board regards as acceptable
- The effectiveness of the Group’s Enterprise Risk Management Framework and the extent to which risks inherent in the Group’s business activities and strategic objectives are controlled within the risk appetite established by the Board
- The effectiveness of the Group’s systems and controls for compliance with statutory and regulatory obligations
- The appropriateness of the Group’s risk culture, to ensure it supports the Group’s agreed risk appetite
- The effectiveness of the Group’s strategies in promoting good outcomes for customers and integrity in the market as central to its operations and culture
- The effectiveness of the Group in addressing issues requiring remedial attention to ensure actions are completed in a timely manner and minimise the potential for risk appetite thresholds to be exceeded
- The Group’s processes for compliance with laws, regulations and ethical codes of practice and prevention of fraud
- Reports from the Internal Audit function relating to matters within its remit

The Committee provides oversight and challenge to the Group’s enterprise-wide risk management arrangements which are managed through the ERC. It also retains oversight responsibility for model risk within the Group.

The Committee meets at least four times a year. The executive directors, Chief Risk Officer (“**CRO**”), Chief Operating Officer, General Counsel and Chief Internal Auditor are invited to attend meetings of the Committee on a regular basis. The Committee reserves the right to request any of these individuals to withdraw or to request the attendance of any other Group employee. The Committee meets annually with the CRO, without the presence of executive management, to discuss their remit and any issues arising from it. The Committee also has the power to requisition a meeting with the Chief Internal Auditor and/or the external auditor without the presence of executive management to discuss any matters that any of these parties believe should be discussed privately.

### **Executive Risk Committee (“ERC”)**

The purpose of the ERC is to assist the CEO in maintaining and refining the Group’s risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and managing the principal risks within the Group. The ERC was established under the specific authority of the CEO. It is chaired by the CRO and includes all Executive Committee members. The ERC monitors the interaction and integration of the Group’s business objectives, strategy and business plans with the Group’s risk appetite and risk strategy

and escalates breaches and significant matters to the Risk and Compliance Committee, recommending changes as appropriate.

Key areas of focus for the ERC include:

- Reviewing, as appropriate from time to time, the appropriateness and effectiveness of the Enterprise Risk Management Framework and supporting frameworks to manage and mitigate risk;
- Reviewing the Group's approach to controlling each principal risk and its capability to identify and manage such risks;
- Reviewing the emerging and corporate risk register, including reviewing emerging risks as they arise, consideration of their potential impact on the Group's business objectives, strategy and business plans, as well as risk choices, appetite and thresholds;
- Periodically reviewing the effectiveness of the Group's internal control and risk systems, including the Group's material outsourced arrangements and risks associated therewith, particularly where they might impact customers;
- Ensuring compliance with relevant PRA and FCA regulations (excluding the Senior Management and Certification Regime, which is overseen by the Performance Executive Committee);
- Reviewing the process and outcome of the Group's Internal Capital Adequacy Assessment Process, Internal Liquidity Adequacy Assessment Process and Recovery Plan (including Solvent Exit analysis) and making recommendations to the Board Risk and Compliance Committee and Board for approval;
- Considering the implications of any proposed legislative or regulatory changes that may be material to the Group's risk appetite, risk exposure, risk management and regulatory compliance.

The ERC is supported by an executive level Asset and Liability Committee, Customer and Conduct Committee, Credit Committee, and Operational Risk Committee, which focus on specific aspects of the Group's risk profile. Each of the executive sub-committees operates within terms of reference formally approved by the ERC. The primary functions of each of these committees are described below.

#### **Asset and Liability Committee ("ALCO")**

The ALCO comprises heads of relevant functions and is chaired by the Balance Sheet Risk Director.

The principal purpose of the ALCO is to monitor and review the financial risk management of the Group's balance sheet in accordance with the stated risk appetite of the Board. As such, it is responsible for overseeing all aspects of market risk, liquidity risk, pricing and capital management as well as the treasury control framework. The ALCO operates within clearly delegated authorities, monitoring exposures and providing recommendations on actions required. It also monitors performance against risk appetite on an on-going basis and makes recommendations for revisions to risk appetites through the ERC to the Risk and Compliance Committee.

#### **Customer and Conduct Committee ("CCC")**

The CCC comprises heads of relevant functions and is chaired by the Conduct and Compliance Director.

The CCC is responsible for overseeing the management of the Group's conduct risk and regulatory compliance risk (including financial crime risk) so that they are managed within appetite and customers receive good outcomes.

The CCC considers conduct risk information such as details of conduct or regulatory compliance breaches; systems and procedures for delivering good outcomes to customers (such as in relation to customer

vulnerability); the product governance framework; and monitoring reports. It also considers product reviews from a customer perspective. The CCC is responsible for overseeing adherence to FCA Consumer Duty principles and outcomes through robust oversight both during the implementation project and subsequently and the review and challenge of the annual Consumer Duty report prior to escalation to the Board.

With respect to compliance, the CCC is responsible for overseeing the maintenance of effective systems and controls to meet conduct-related regulatory obligations. It is also responsible for reviewing the quality, adequacy, resources, scope and nature of the work of the Compliance function, including the annual Compliance Monitoring Plan.

### **Credit Committee**

The Credit Committee comprises senior managers from the Risk and Compliance, Finance and Operations functions and is chaired by the Credit Risk Director.

The Credit Committee approves credit risk policies in respect of customer exposures and defines risk grading and underwriting criteria. It also provides guidance and makes recommendations to implement the Group's strategic plans for credit. The Credit Committee oversees the management of the credit portfolios, the post-origination risk management processes and the management of past due or impaired credit accounts. It also monitors performance against appetite on an on-going basis and makes recommendations for revisions to the credit risk appetites to the Board or Risk and Compliance Committee. The Credit Committee also operates the Group's most senior lending mandate.

### **Operational Risk Committee ("ORC")**

The ORC comprises heads of relevant functions and lines of business and is chaired by the Enterprise Risk Director.

The ORC is responsible for overseeing the Group's operational risk and resilience arrangements, including those systems and controls intended to counter the risk that the Group might be used to further financial crime. Although the CCC is the prime oversight body relating to financial crime, the ORC retains oversight through the annual review of the Money Laundering Reporting Officer report, and of fraud-related risk events given that financial crime is an Operational Risk category.

The remit of the ORC also includes risks arising from personnel, technology, and environmental matters within the business, including those arising from the use of third parties. The ORC considers key operational risk information such as key risk indicators, themes within risk registers, emerging risks, loss events, control failures, and operational resilience measures. It also monitors performance against risk appetite on an on-going basis.

### **Funding**

The Group's funding strategy is built on diversification and sustainability. The variety of funding options ensures that pricing and availability issues in any individual funding market can be mitigated, whilst maintaining the flexibility to fund strategic developments.

The Group raises the majority of its new funding through the retail deposit market. The Group's retail deposit balance remained relatively stable during the year ended 30 September 2025, amounting to £16,265.7 million (excluding fair value adjustments for portfolio hedging) as at 30 September 2025 (30 September 2024: £16,298.0 million (excluding fair value adjustments for portfolio hedging)), representing 90.5 per cent. of balance sheet funding.

The Group's funding as at 30 September 2025 is summarised as follows:

	<b>As at 30 September</b>		
	<i>(£, millions)</i>		
	<b>2025</b>	<b>2024</b>	<b>2023</b>
Retail deposit balances (excluding fair value adjustments for portfolio hedging)	16,265.7	16,298.0	13,265.3
Securitised and warehouse funding	-	-	28.0
Central bank facilities	950.0	755.0	2,750.0
Covered bonds	499.2	-	-
Tier 2 and retail bonds	150.1	149.9	258.2
Sale and repurchase agreements	100.0	100.0	50.0
Total on balance sheet funding	17,965.0	17,302.9	16,351.5
Other off balance sheet liquidity facilities	150.0	150.0	150.0
<b>Total funding</b>	<b>18,115.0</b>	<b>17,452.9</b>	<b>16,501.5</b>

The Group maintains a conservative stance on liquidity. £3,015.7 million of cash and high-quality, liquid securities were available for liquidity and other purposes as at 30 September 2025 (30 September 2024: £2,952.8 million). This comprises balances shown as ‘Cash – central banks’, ‘Cash – retail banks’ and ‘Investment securities’ in the Issuer’s consolidated balance sheet (section D1.3 of the 2025 Audited Financial Statements). Mortgage loans pre-positioned with the Bank of England to act as collateral provide access to potential liquidity of up to £4,168.3 million as at 30 September 2025 (30 September 2024: £4,445.9 million). Further capacity is provided by the Group’s retained AAA-rated asset backed notes and investment securities which can also be used to access Bank of England funding arrangements.

As of the date of this Offering Circular, the Group’s principal source of funding is retail deposits, augmented with funding from RMBS securitisations and the Group’s covered bond programme. Funding from bonds and public securitisations has reduced, with the most recent securitisations being retained for use as collateral to support central bank borrowings.

### **Capital**

A summary of the Regulatory Group’s regulatory capital position on a consolidated basis at the end of each of the previous two financial years is included on pages 7 to 12 of the 2025 Pillar III Disclosures, which are incorporated by reference herein.

## REGULATORY DEVELOPMENTS

The financial services industry, of which the Issuer and the Group are part, has been and continues to be the focus of significant regulatory change. A brief description of key elements of changing regulation which impacts the Issuer and the Group is set out below. In particular, some of the following legislative changes have affected and will affect: (i) the capital and risk management strategy of the Issuer and the Group; and (ii) the Notes.

### 1 PRUDENTIAL REGULATION

#### 1.1 The Banking Act and the SRR

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 (each, an “**Authority**”) 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 the Issuer in circumstances in which the relevant UK resolution authority is satisfied that the relevant resolution conditions are met.

The powers granted to Authorities under the Banking Act include a “mandatory write-down and conversion power” relating to regulatory capital instruments (such as the Notes) which may be used where an Authority has determined that the institution concerned has reached the point of non-viability or where the conditions to resolution are met. Unlike the bail-in tool, this power may be exercised prior to or instead of entering resolution. Any write-down or conversion effected using this power must reflect the insolvency priority of the written-down claims – thus common equity shall generally be written off in full before subordinated debt (including the Notes) is affected. However, the mandatory write-down and conversion of capital instruments power is not subject to the “no creditor worse off” safeguard which applies to the bail-in power.

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 and (e) temporary public ownership (nationalisation).

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.

Following an extensive HM Treasury led consultation process, the Bank Resolution (Recapitalisation) Act received Royal Assent in May 2025. The new Act enhances the SRR by providing a new mechanism to facilitate the use of certain existing stabilisation powers to manage the failure of small banks and limit risks to public funds. The statutory functions of the FSCS are expanded, requiring it to provide funds to the Bank of England upon request: these funds could be used to meet certain costs arising from the use of the resolution regime to manage the failure of certain banks, building societies and PRA-authorized investment firms. The FSCS would be able to use its levy-raising powers to recover any funds provided to the Bank of England through imposing levies on the banking sector. In addition to the new funding regime, the Act extends the Bank of England’s ability to require a bank to issue new shares where under resolution. The PRA has made a number of rule changes implemented from July 2025 to facilitate the proposed changes.

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

As at the date of this Offering Circular, the resolution strategy for the Issuer set by the Bank of England is modified insolvency under Part 2 of the Banking Act. However, in accordance with the Bank of England's policy, the actual approach taken to resolve any institution will depend on the circumstances at the time of its failure. In addition, the Issuer's resolution strategy, or the Bank of England's policy, may change in the future.

Where the relevant statutory conditions for the commencement of modified insolvency proceedings under the Banking Act are met, the relevant UK resolution authority would be expected to apply to the court for the Issuer to enter modified insolvency under Part 2 of the Banking Act at the point of failure.

## 1.2 The UK CRD

### *Capital Requirements*

The UK CRD contains the core prudential requirements for UK credit institutions and investment firms and sets out minimum capital requirements for these firms. The UK CRD requires, on a consolidated basis, each of the Regulatory Group and Paragon Bank to hold a minimum amount of total regulatory capital of 8 per cent. of Risk Weighted Assets, a minimum amount of Tier 1 Capital of 6 per cent. of Risk Weighted Assets and a minimum amount of common equity Tier 1 ("CET1") Capital of 4.5 per cent. of Risk Weighted Assets (the "**Pillar 1 requirements**"). In addition, the UK CRD requires that several capital buffers are met with CET1 capital. The combination of (i) the capital conservation buffer, (ii) the time-varying countercyclical capital buffer, (iii) the higher of (a) the global systemically important institutions buffer or other systemically important institutions buffer and (b) the systemic risk buffer constitute the "combined buffer".

The PRA has published policy statements PS12/25 and PS19/25, which contain the near final policy in relation to the restatement of the remaining provisions of the UK CRD Regulation within the PRA Rulebook and the modification thereof. While certain proposed rules in PS12/25 (including those in relation to the definition of capital) came into force on 1 January 2026, the remaining rules are intended to take effect from 1 January 2027. On 14 July 2025, HM Treasury made The Financial Services and Markets Act 2023 (Commencement No. 10 and Saving Provisions) Regulations 2025/873, which confirmed the revocation of certain provisions of UK CRD on 1 January 2026. On 15 January 2026, HM Treasury also made the Financial Services and Markets Act 2023 (Prudential Regulation of Credit Institutions) (Consequential Amendments) Regulations 2025, which came into force on 1 January 2026 and made amendments to legislation which reflect the provisions relating to prudential and other requirements for credit institutions and investment firms where there would be no corresponding PRA rule to replace the revoked UK CRD Regulation provisions.

Currently, the Group does not meet the criteria for designation as a systemically important institution, or the threshold for systemic risk: therefore the Group is not subject to either a global systemically important institution (G-SII) buffer or a systemic risk buffer.

The capital conservation buffer and the countercyclical capital buffer currently apply to the Regulatory Group. The capital conservation buffer is set at 2.5 per cent. of Risk Weighted Assets and needs to be

met with an additional amount of CET1 capital. The primary objective of the countercyclical capital buffer is to use a buffer of capital to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk. The UK countercyclical capital buffer is dependent upon the BoE's view of credit conditions in the economy. The BoE's Financial Policy Committee (the "FPC") would be expected to change countercyclical capital buffer requirements if it determines that the strength of the UK economy warrants such change.

The FPC judges that the neutral rate for the UK countercyclical capital buffer is around 2 per cent. in a standard risk environment. As part of the structural increase in the UK countercyclical capital buffer level in 2019, which effectively represented an increase in macro-prudential buffers, the PRA allowed firms to reduce their Pillar 2A requirements by up to 1 per cent. in order to ensure that the total regulatory loss-absorbing capacity was broadly unchanged. The combined buffer sits on top of the Pillar 1 requirements. If an institution breaches the combined buffer, automatic safeguards apply to limit the amount of dividend and bonus payments it can make as well as limiting payments on Additional Tier 1 instruments.

In addition, the PRA requires the Group to hold extra capital to cover risks not covered or insufficiently covered by the Pillar 1 requirements (the "**Pillar 2A requirements**"). The Pillar 2A requirements sit on top of the Pillar 1 requirements so increase the combined buffer requirements and automatic safeguards. For non-systemic firms like Paragon Bank, the PRA tends to set the Pillar 2A capital requirements on a two to three year cycle, although the PRA can change this frequency should it be required. The PRA's assessment is derived from each firm's individual capital assessment as documented in their Internal Capital Adequacy Assessment Process. Under current PRA rules, the Pillar 2A must be met with at least 56.25 per cent. CET1 capital and no more than 25.00 per cent. tier 2 capital. In addition, the capital that firms use to meet their minimum requirements (Pillar 1 and Pillar 2A) cannot be counted towards meeting the combined buffer requirement. The PRA's framework also enables a PRA capital buffer which is not prescribed under the UK CRD. The PRA capital buffer (also known as Pillar 2B requirements) is set by the PRA on a bank-by-bank basis using supervisory judgement informed by the impact of stress scenarios on a bank's capital requirements and resources and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in the bank's risk management and governance. The PRA's Pillar 2B assessment takes place alongside the Pillar 2A assessment.

The methodology for Pillar 2A is currently undergoing a PRA review, with a two-part PRA consultation process. On 22 May 2025, the PRA issued a consultation paper (CP12/25), which makes proposals in respect of credit risk, operational risk, pension obligation risk, market risk and counterparty credit risk. The consultation period ended on 30 September 2025, with the implementation date for changes to pension obligation risk and market risk and counterparty credit risk expected to be 1 July 2026 and the implementation date for the remaining proposals concerning credit risk and operational risk expected to be 1 January 2027. The PRA has stated that it will in future conduct a more in-depth review of individual methodologies within Pillar 2A. In October 2025, the PRA confirmed that it will be retiring the "refined methodology for P2A". This approach sought to bridge the gap between firms with IRB models and those on the Standardised approaches for the calculation of capital requirements. The PRA argue that the refined approach is no longer required due to changes in Basel 3.1 (the implementation of an output floor) alongside revised modelling approaches which have materially closed the gap between IRB and Standardised approaches for low risk, low LTV residential exposures. On 20 January 2026, the PRA published its policy statement "*Retiring the refined methodology to Pillar 2A – final*" ("PS2/26") which confirmed the policy to retire the refined methodology to Pillar 2A for all firms will take effect from 1

January 2027. From this date, the refined methodology will no longer apply to all firms, including SDDTs, as they will be subject to the Basel 3.1 standardised approach to credit risk.

The Bank of England's approach to stress testing comprises three elements: (a) to undertake a Bank Capital Stress Test of the largest and most systemic UK banks every other year; (b) in the intervening years, the Bank of England expects to use stress testing when appropriate to supplement its assessment of the resilience of the banking system to cyclical risks; and (c) the Bank of England to continue to use exploratory exercises to assess other risks, including structural and emerging risks that are not closely linked to the financial cycle. The PRA uses the stress test results to assess the buffer requirements of participants, although the results of the most recent exercises have noted that no individual bank has been required to strengthen its capital position as a result of the stress test. The Group is not required to participate in the Bank of England's Biennial Bank Capital Stress Test exercises. However, the Group does perform internal stress testing based on the Bank of England's published scenarios.

In this Offering Circular:

“**UK CRD**” means the legislative package consisting of:

- (a) the UK CRD Regulation, as restated and modified in the PRA Rulebook;
- (b) the law of the UK or any part of it, which immediately before IP completion day (as defined in the EUWA) implemented Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and its implementing measures (“**EU CRD**”); and
- (c) direct EU legislation (as defined in the EUWA), which immediately before IP completion day (as defined in the EUWA) implemented EU CRD as it forms part of domestic law by virtue of the EUWA.

“**UK CRD Regulation**” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, as amended before IP completion day as it forms part of domestic law by virtue of the EUWA.

It should be noted that EU CRD has been amended by the Capital Requirements Directive V (Directive (EU) 2019/878) and Capital Requirements Directive VI (Directive (EU) 2024/1619). While the EU CRD amendments do not have direct application in the UK, these may or may not incentivise the UK government or the UK regulators to introduce similar changes to the UK framework.

*Minimum requirement for own funds and eligible liabilities*

The Bank of England has the power to direct institutions to maintain a minimum requirement for own funds and eligible liabilities (“**MREL**”). For institutions for which bail-in is the appropriate resolution strategy and which are not classified as systemically important, MREL has been introduced in two phases. From 1 January 2020, such institutions were required to meet an interim MREL equivalent to 18 per cent. of risk-weighted assets and from 1 January 2023, such institutions were required to meet their end-state MREL equivalent which will be the higher of: (i) two times the sum of the firm's Pillar 1 and Pillar 2A or (ii) if subject to a leverage ratio requirement, two times the applicable requirement.

Although, as at the date of this Offering Circular, the Regulatory Group is not required to meet an MREL requirement that is above its minimum regulatory capital requirements (Pillar 1 and Pillar 2A, excluding buffers), the Bank of England's policies and instructions may be subject to change and/or there may be a significant expansion in the Group's operations, and, therefore, the Regulatory Group could be subject to MREL requirements in the future.

The Bank of England published an updated version of its Statement of Policy entitled “*The Bank of England’s approach to setting a minimum requirement for own funds and eligible liabilities (MREL)*” on 15 July 2025, with such version taking effect from 1 January 2026. The revised Statement of Policy does not alter the resolution strategy for the Issuer, which (as at the date of this Offering Circular) is modified insolvency. The most relevant change for the Group is the increase in the total asset threshold at which a firm may be subject to a bail in resolution strategy from £15-25 billion to £25-40 billion, with firms having total assets in excess of £40 billion on a three-year forward-looking basis automatically being subject to a bail in resolution strategy. Moreover, the total asset thresholds will be updated every three years, as necessary to take account of changes in nominal economic growth, with the first such update due in the first half of 2028.

### 1.3 Basel 3.1

The Basel Committee published its final reforms to the Basel III framework (“**Basel 3.1**”) in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new risk-weighted asset output floor. The output floor will be subject to a transition period, with full implementation by 1 January 2030. There are a number of areas within Basel 3.1 subject to national discretion and choice. The proposals set out in the near-final policy statements have been included in the Group’s corporate planning assumptions. The PRA published its final policy statement (PS1/26) on 20 January 2026, setting out the final PRA Rulebook instruments, supervisory statements, statements of policy, and the associated disclosure and reporting templates and instructions implementing the Basel 3.1 standards, with such rules to take effect on 1 January 2027.

In January 2025, the PRA also published CP 17/25 proposing to delay the implementation of the new Fundamental Review of the Trading Book internal model approach for another year until 1 January 2028. In PS1/26, the PRA confirmed that the implementation had been delayed to 1 January 2028. Whilst the resultant changes were expected to include revisions to a number of elements of the standardised approach for credit risk, a new operational risk framework as well as revisions to the standardised approach for market risk, it remains to be seen what policy approaches might be adopted in response to the most recent delay to implementing this regime.

In January 2026, the PRA published its final policy statement “*PS 4/26 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs) - final*”. SDDTs can choose whether to join the SDDT regime or move to implement the PRA’s Basel 3.1 package from 1 January 2027.

In May 2025, the PRA published CP12/25 which makes proposals on how the approach to setting Pillar 2A capital frameworks can be changed in light of the implementation of Basel 3.1. This consultation is set out in two phases. Phase 1, which has been published, covers: Credit risk, operational risk, pension obligation risk, and market and counterparty risk. Phase 2, which will cover all other remaining P2A risks is expected to be published in 2026. In October 2025, the PRA confirmed that it will be retiring the “refined methodology for P2A”. This approach sought to bridge the gap between firms with IRB models and those on the Standardised approaches for the calculation of capital requirements. The PRA argue that the refined approach is no longer required due to changes in Basel 3.1 (the implementation of an output floor) alongside revised modelling approaches which have materially closed the gap between IRB and Standardised approaches for low risk, low LTV residential exposures. Alongside CP12/25, the PRA also published PS7/25 which outlines the near-final policy on the SME and infrastructure lending adjustments to Pillar 2A (Pillar 2A lending adjustments) as outlined in PS9/24 and following consultation on its original proposals in CP16/22. On 20 January 2026, the PRA published its policy statement “*Retiring the refined methodology to Pillar 2A – final*” (“PS2/26”) which confirmed the policy to retire the refined methodology to Pillar 2A for all firms will take effect from 1 January 2027. From this date,

the refined methodology will no longer apply to all firms, including SDDTs, as they will be subject to the Basel 3.1 standardised approach to credit risk.

The implementation of Basel 3.1 requires the PRA to re-calibrate all relevant firms' capital requirements ahead of 1 January 2027. In order to do this the PRA will be undertaking an "off-cycle" capital review for all firms during 2026. Firms are required to submit data templates to the PRA by the end of March 2026 to facilitate this.

#### 1.4 FSCS and deposit guarantee scheme

The FSCS pays compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. As well as compensating customers when regulated firms fail, the FSCS's aim is to promote confidence in the financial system by limiting the system risk that the failure of a single firm might trigger resulting in a wider loss of confidence in the relevant financial sector. The Group is responsible for contributing to the FSCS through a levy. The aim of this levy is to support compensation payments made by the FSCS and to cover management expenses.

The Deposit Guarantee Schemes Regulations 2015, as amended by the Deposit Guarantee Scheme and Miscellaneous Provisions (Amendment) (EU Exit) Regulations 2018/1285 (the "**DGS Regulation**") and the PRA's depositor protection rules ensure that all eligible deposits up to £120,000 are protected through the FSCS deposit guarantee scheme. The rules are intended to enable depositors protected by the FSCS to have continuity of access to their accounts during resolution, as well as imposing requirements on deposit-takers in relation to Single Customer View ("**SCV**"). All deposit taking firms subject to the regime are required to produce SCV files for verification purposes and in the event of default. Firms are also required to update their SCV systems and mark eligible deposits in a way that allows immediate identification of them.

Following the failure of Silicon Valley Bank in 2023, the FSCS published "*Beyond compensation: The role of FSCS in raising consumer trust and confidence*" exploring the FSCS's role in building trust in financial services and how the FSCS can play a role in raising confidence in the sector. On 18 April 2023, the Bank of England published "*Improving depositor outcomes in bank or building society insolvency*" which includes several proposals to better support the timely payout of eligible depositors and minimise the disruption caused by a bank or building society insolvency procedure. This work predates, but aims to incorporate lessons learnt from, the resolution of Silicon Valley Bank UK. The Bank of England is working with other UK authorities to progress these, and as part of this work the FSCS has developed a digital payment portal, to speed up the payment of compensation of covered deposits for former customers of a failed bank or building society.

#### 1.5 Leverage

The UK leverage ratio framework is intended to mirror aspects of the risk-weighted capital requirement. The UK leverage ratio was originally set at 3 per cent. of exposures and in 2017 was increased to 3.25 per cent. of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure.

On 2 December 2025, the Financial Policy Committee ("**FPC**") published its Financial Stability Report, accompanied by a Financial Stability in Focus (FSiF) paper. In these documents, the Committee indicated that several areas of the UK capital framework may be reviewed and, where appropriate, amended in the future. These areas include, without limitation, enhancing the usability of regulatory buffers; reviewing the UK leverage ratio framework; assessing the interaction of capital requirements that are linked to UK domestic exposures; introducing automatic indexation of regulatory thresholds to limit prudential drag as the economy grows; reviewing how the Basel 3.1 output floor applies at the ring-

fenced sub-group level; and supporting the PRA's work on risk-weight modelling for mortgage lending following DP1/25.

From 1 January 2026 the scope of the leverage ratio was expanded to include all firms with retail deposits (calculated on a three-year average) equal to or greater than £75 billion or foreign assets equal to or greater than £10 billion, when calculated on an individual basis. The Group is not therefore subject to the UK leverage ratio. However, the PRA has set an expectation that firms not in scope of the leverage ratio minimum capital requirement should manage their leverage risk so that their leverage ratio, as calculated in accordance with the Leverage Ratio (CRR) Part of the Rulebook, does not ordinarily fall below 3.25 per cent. At least three-quarters of the leverage ratio requirement must be met with CET1 capital and up to one-quarter may be met with AT1 capital.

## **1.6 Interest rate risk in the banking book and market risk**

In addition to the Basel Committee's approach to interest rate risk in the banking book, the Group is monitoring its approach to traded market risk in view of the risk that, although the Group's operations are all related to banking book activity, the Basel Committee may require different treatments to be applied to certain products.

The PRA's policy statement (PS 22/21) implements the Basel standards for prudent valuation for market risk and amendments to market risk management requirements. This policy statement also requires firms to make qualitative and quantitative disclosures in relation to their risk exposure to interest rate risk in the banking book and their management of this risk, in line with the Basel standards.

## **1.7 Prudential Regulation of Climate Change**

During April 2019, the PRA published a Policy Statement noting that climate change, and society's response to it, present financial risks which are relevant to its objectives. Furthermore, the PRA released a 'Dear CEO' letter in July 2020 emphasising its expectations for firms to have fully embedded their approaches to managing climate related financial risks by the end of 2021. To help firms understand the risks and opportunities that arise from climate change, and to provide support on how to integrate these risks into strategy and decision-making processes, the Climate Financial Risk Forum Guide was published in June 2020. The most recent round of guides were published in April 2025.

In October 2021, the Bank of England published its Climate Change Adaptation Report ("CCAR"), which set out early thinking on climate change and regulatory capital frameworks for banks and insurers. On 13 March 2023, the Bank of England and PRA published an updated report building on CCAR on climate-related risks and the regulatory capital frameworks.

In December 2025, the PRA published its Supervisory Statement SS5/25 on "Enhancing banks' and insurers' approaches to managing climate-related risks". This statement provides an updated view of the PRA's expectations for the management of climate risks covering: Governance, risk management, climate scenario analysis, data, disclosures, and banking specific issues. The prudential regulation of climate risk will be an important driver in how the Group otherwise decides how it allocates capital and further develop its risk appetite for financing certain types of activity or engaging with counterparties that do not align to a transition to a net zero economy. The Group continues to develop its strategy in respect of climate change, in line with this guidance, to ensure it is well-positioned to address these emerging challenges.

## **1.8 Ring fencing**

As of 1 January 2019, the largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities. The aim of ring-fencing is to protect UK retail banking from shocks originating elsewhere in the group and in global financial markets. It

covers banks with more than £25 billion of core (retail and SME) deposits. Under the regime, core banking services – taking deposits, making payments and providing overdrafts for UK retail customers and small businesses – become financially, operationally and organisationally separate from investment banking and international banking activities. Banks that have been separated (or ‘ring-fenced’) from the rest of their groups in this way are known as ring-fenced bodies.

In September 2023, the UK Government consulted on near-term reforms to the bank ring-fencing regime (“A smarter ring-fencing regime”) building on the Skeoch Review that published its recommendations in March 2022. The changes proposed by the Government include an increase in the threshold at which the ring-fencing rules are applied from £25 billion of core deposits to £35 billion of core deposits, as well as the introduction of a secondary threshold to exempt retail-focused banking groups where investment banking activity accounts for less than 10 per cent. of Tier 1 capital from the regime. The statutory instrument implementing these changes (The Financial Services and Markets Act 2000 (Ring-Fenced Bodies Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2025) was published in January 2025 and came into force on 4 February 2025. The ring-fencing rules do not currently apply to the Group and the amendments to the regime further reduce the likelihood of them applying to the Group in the future.

## 2 UK AND EUROPEAN BANKING AND FINANCIAL SERVICES REFORM INITIATIVES

### 2.1 The Consumer Credit Regime

The Group is subject to the consumer credit regime under the FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the CCA was transferred from the Office of Fair Trading (the “OFT”) to the FCA in April 2014. Certain secondary legislation made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and looks to be taking a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that are required to comply with the FCA requirements applicable to the provision of consumer credit, the Group may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for non-compliance. In addition, the courts have wide powers to look again at a credit agreement, when the borrower alleges an aspect of it was “unfair”, and render such arrangement unenforceable.

In August 2020, the FCA published a report focused on relending by high-cost lenders, identifying high volumes of re-lending to high-cost credit customers as one of the key ways in which these customers may be harmed by their lenders. The Group has reviewed its relending operations in the light of the FCA report and made any necessary changes to improve customer outcomes. The FCA will continue to carry out further diagnostic work to understand whether there are business models in the retail lending sectors that rely on consumers who cannot afford to repay.

In November 2024, the FCA amended the consumer credit rules in the FCA Handbook to improve outcomes for those in financial difficulty, by incorporating aspects of the FCA’s Tailored Support Guidance (“TSG”) introduced during the pandemic. At the same time as the FCA Handbook was updated, the TSG was withdrawn. The Group has taken the necessary steps to meet the updated requirements.

In May 2025, the government launched a consultation on reforming the CCA, citing the prescriptive, inflexible and complex nature of the current framework as key drivers for change. The policy objective is to transfer responsibility for consumer credit regulation to the FCA where practical. The government

is pursuing a two-phase reform approach. Phase one involved a consultation on information requirements, sanctions and criminal offences, with key proposals including repealing all Consumer Credit Act information provisions and removing automatic sanctions such as unenforceability. That consultation closed on 21 July 2025. Phase two will focus on consumer rights (including unfair relationships provisions) scope and definitions. The reforms are intended to deliver more flexible, innovation friendly regulation and to reduce regulatory burdens, although concerns remain about a potential dilution of consumer protections. The government intends to complete both phases of the policy work before implementation, with FCA consultation on new rules expected in due course.

## **2.2 General Data Protection Regulation**

The GDPR came into force on 25 May 2018 and provided a single set of rules on data protection, directly applicable in all EU Member States. The main provisions included a requirement to notify regulators of breaches within 72 hours of identification, increased sanctions including fines of up to four per cent. of an enterprise's annual worldwide turnover and reduced timelines within which firms must respond to subject access requests (within 30 calendar days). In some circumstances, consumers are also able to request deletion of all personal data held by the data controller and third party recipients. The Group delivered these requirements by the regulatory deadline.

From 31 December 2020, the GDPR has formed part of domestic law of the United Kingdom by virtue of the EUWA and as amended by relevant UK statutory instruments. The Group considered these amendments to ensure that its data protection compliance programme continued to be effective. The Group continues to monitor regulatory developments in the UK and the EU (to the extent relevant) and in particular, the impact of the Data (Use and Access) Act 2025 which received Royal Assent on 19 June 2025.

## **2.3 Regulation of Benchmarks**

Interest rates and indices which are deemed to be “benchmarks” are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted.

The EU Benchmarks Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds became fully applicable from 1 January 2018. The EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU.

The EU Benchmarks Regulation, as it forms part of the UK domestic law by virtue of the EUWA (the “**UK Benchmarks Regulation**”) applies to provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the UK.

On 17 December 2025, HM Treasury launched a consultation on a new regime for benchmarks and benchmark administrators. The proposed Specified Authorised Benchmarks Regime (“**SABR**”) will replace the UK Benchmarks Regulation and will be significantly narrower in scope, regulating only benchmarks and administrators that are designated as systemically important to UK financial markets. The proposed SABR will also, among other things, remove the requirement for authorised firms to use only regulated benchmarks, with detailed rules governing their use of regulated and unregulated benchmarks to be developed by the FCA in due course.

## **2.4 CMA ‘loyalty penalty’ super-complaint**

Citizens Advice submitted a super-complaint to the CMA in September 2018 calling on the regulator to investigate the overcharging of ‘loyal’ customers in five essential markets (mobile, broadband, home

insurance, mortgages and savings) and to identify remedies to fix this problem. Citizens Advice believes that the practice of overcharging loyal customers is widespread and it has repeatedly warned that loyal consumers are being disadvantaged. The CMA published an initial response to the super-complaint in December 2018, which included recommendations to the FCA. The FCA conducted a consultation on the impact of price discrimination in the cash savings market, but decided not to proceed with the proposals.

For mortgages, the FCA published the outcome of its Mortgage Market Study in March 2019 and as a result of its findings announced changes to its responsible lending rules and guidance, aimed at removing barriers to consumers switching to a more affordable mortgage. The FCA also introduced measures in October 2020 to help some mortgage customers to have more options to switch, in particular to make it easier for customers of a closed book firm ('mortgage prisoners') to switch to an active lender. The FCA provided an update on its work relating to mortgage prisoners in August 2023, indicating that it does not consider there are any further regulatory solutions it can deliver but it will continue to monitor the situation and support the government and the industry as they consider potential further action.

The CMA published an update on progress in the five markets in December 2020 in which it expressed commitment to continuing to work with the Government and the FCA regarding the approach to pricing for existing customers. The CMA has also encouraged regulators to take enforcement action where they see consumer harm.

## **2.5 Financial Ombudsman Service re-definition of gross negligence related to unauthorised payments**

The Financial Ombudsman Service ("FOS") confirmed to all banks and financial institutions that they are viewing negligence and payment authorisation, authentication and consent differently when assessing fraud scam complaints. Consequently, it is highly likely that FOS will overturn historic no refund decisions for victims of 'sophisticated' account takeover scams, where unauthorised, fraudulent payments are made following the customer providing security credentials to fraudsters. FOS may also allow for retrospective claims to be made.

## **2.6 Guidance on fair treatment of vulnerable customers**

In 2019, the FCA launched a consultation on guidance for firms on the fair treatment of vulnerable customers. This aimed to provide regulatory clarity for firms involved in the supply of products or services to retail customers who are actually, or are potentially, vulnerable. The FCA published finalised guidance in February 2021 (FG21/1). In July 2021, the FCA published further guidance to provide clarity on what firms should do to understand the needs of consumers in vulnerable situations and changes that should be implemented. The FCA expects firms to be able to demonstrate how their culture, policies and processes ensure the fair treatment of all consumers, including those who are vulnerable. The Group is monitoring vulnerabilities within its target market and customer base and is taking appropriate action in light of the FCA guidance.

The FCA published a Dear CEO letter on the cost of living crisis in June 2022, setting out its expectations for firms supporting customers affected by the rising cost of living. The FCA identified that the cost of living crisis may lead to an increase in consumer vulnerability, exposing more consumers to a greater risk of harm. The FCA therefore emphasised the need for firms to implement the FCA's Vulnerable Customer Guidance (published in February 2021).

On 3 November 2022, the FCA published its report on borrowers in financial difficulty ("**BiFD Report**"). The BiFD review was launched to assess firms' policies and processes following the

implementation of the TSG. The BiFD Report made clear that the FCA’s expectation is that firms take immediate action to ensure that they are well-placed to support customers.

In July 2023 Consumer Duty rules were introduced, requiring firms to act to deliver good outcomes for all customers, including those in vulnerable circumstances (see further the “Consumer Duty” below).

On 10 April 2024, the FCA published PS24/2: Strengthening protections for borrowers in financial difficulty: Consumer credit and mortgages and the related Consumer Credit and Mortgages (Tailored Support) Instrument 2024 (FCA 2024/7). It also published FG24/2: Guidance for firms supporting existing mortgage borrowers impacted by rising living costs. The FCA stated that it wants to build on the Tailored Support Guidance and provide a stronger framework for lenders to protect customers facing payment difficulties, by incorporating relevant aspects of the Tailored Support Guidance into the FCA Handbook, along with further targeted changes. For mortgages, the FCA has changed its guidance to allow lenders more scope to capitalise payment shortfalls where appropriate and to improve disclosure for all customers in payment shortfall. The new rules came into force on 4 November 2024 and the Tailored Support Guidance was withdrawn at that time; the new rules will not apply to unregulated buy-to-let loans.

In March 2025, the FCA published the results of its 2024 review of how firms are supporting customers in vulnerable circumstances and assessed the continuing relevance of FG21/1: *Guidance for firms on the fair treatment of vulnerable customers* in light of the Consumer Duty. The review drew on firm surveys, multi-firm work, “Financial Lives” data, consumer research and interviews with consumer organisations, trade associations and academics. The FCA found many examples of positive action by firms and a renewed focus on outcomes driven by the Consumer Duty. However, consumers in vulnerable circumstances continue to report poorer outcomes, particularly those with multiple characteristics of vulnerability, and only a minority disclose their needs to providers, although those who do generally report better experiences. The review highlighted key areas for improvement across monitoring outcomes, consumer support, communications and product governance. Stakeholders confirmed that the existing guidance remains useful and important under the Consumer Duty. Consequently, the FCA has decided not to revise the guidance or introduce new requirements, but has instead published case studies illustrating good practice and areas for improvement, and will continue to monitor outcomes for vulnerable customers across its Consumer Duty work and engage with industry to support ongoing improvement.

## 2.7 Consumer Duty

The FCA’s consumer duty (the “**Consumer Duty**”) aims to set a higher level of consumer protection in retail financial markets by requiring regulated firms to act to deliver good retail customer outcomes. It has applied since 31 July 2023 for products and services that remain open to sale or renewal and since 31 July 2024 for closed products and services. The package of measures comprises (i) a new “consumer principle” that provides an overarching standard of conduct, (ii) a set of cross cutting rules that set clear expectations for firms’ cultures and behaviours, and (iii) a set of outcomes, which set more detailed expectations for firm conduct in relation to products and services, price and fair value, consumer understanding and consumer support. For mortgages, the Consumer Duty does not apply to unregulated buy-to-let contracts or commercial mortgage loans but would apply to most regulated mortgage contracts and there are some circumstances in which the Consumer Duty would apply to the servicing of buy-to-let loans.

In July 2025, the FCA published a Policy Statement (PS25/11) which implements the first outcomes of its Mortgage Rule Review to simplify rules and increase flexibility for firms, while maintaining protections under the Consumer Duty and making it easier for consumers to manage their mortgages.

The FCA has also removed two pieces of “non-Handbook guidance” that are no longer necessary in light of the new rules: FG13/7 (Dealing fairly with interest-only mortgage customers who risk being unable to repay their loan); and FG24/2 (Guidance for firms supporting their existing mortgage borrowers impacted by the rising cost of living). The amended rules and guidance are set out in the Mortgage Rule Review (Execution-Only, Affordability and Expired Terms) Instrument 2025 (FCA 2025/34), which came into force on 22 July 2025. Firms are permitted, but not required, to adopt the new rules which provide them with more flexibility.

## 2.8 Dual Regulation

Paragon Bank is a dual-regulated financial institution in the United Kingdom, meaning it and the Group is subject to regulation and supervision by both the FCA and the PRA.

The PRA is responsible for the prudential oversight and regulation of the Group, focusing on the safety and soundness of the Group’s financial condition, the protection of depositors, and the stability of the UK financial system. The PRA evaluates the Group’s capital adequacy, liquidity, and risk management processes, among other things.

The FCA is responsible for ensuring that Paragon Bank and certain other entities in the Group conduct their respective business with integrity, that the financial markets in which the Group operates function well, and that the Group provides adequate protection to consumers and retail customers. The FCA has the authority to investigate and enforce action against regulated entities and individuals for breaches of its rules and principles.

## 2.9 Senior Managers and Certification Regime

The Issuer, Paragon Bank and other regulated entities within the Group (the “**Regulated Entities**”) are subject to the Senior Managers and Certification Regime (“**SMCR**”), a regulatory framework designed to increase the accountability of senior individuals working within financial institutions, and to ensure that they meet appropriate standards of conduct and competence. Under the SMCR, the Issuer and the other Regulated Entities are subject to a number of requirements including:

- **Senior Managers Regime:** The Issuer and the other Regulated Entities are required to assign specific responsibilities to individuals who are classified as Senior Managers. These individuals must be approved by the regulators and are subject to a ‘Duty of Responsibility’, meaning that each could be held personally accountable for any misconduct that falls within that person’s area of responsibility.
- **Certification Regime:** This applies to employees who are not Senior Managers but whose role is deemed to pose a risk of significant harm to the Issuer and the other Regulated Entities or any of their respective customers (Certified Persons). The Issuer and the other Regulated Entities are obliged to certify that these individuals are fit and proper to perform their role at least annually.
- **Conduct Rules:** These are a set of baseline rules that apply to all staff except ancillary staff. They require individuals to act with integrity, due care, skill and diligence, be open with regulators, pay due regard to customer interests and treat them fairly, and to observe proper standards of market conduct. The Consumer Duty introduced an additional Conduct Rule requiring all Conduct Rule Staff to act to deliver good outcomes for retail customers where the activities of the firm fall within scope of the Consumer Duty. Senior Managers are also subject to additional Conduct Rules.

On 15 July 2025, HM Treasury, the FCA, and the PRA each published consultation papers aimed at simplifying the Senior Managers and Certification Regime. The consultations, among other things,

propose a suite of reforms to the regime aimed at streamlining its operation, reducing the burden on firms and addressing practical challenges by making the requirements clearer and more efficient. There are two phases to the reforms: (a) phase 1 delivering reforms that can be achieved without legislative change; and (b) phase 2 with more fundamental legislative changes after HM Treasury consults on and implements changes to the legal framework.

The FCA Code of Conduct sourcebook (“**COCON**”) and the Fit and Proper Test for Employees and Senior Personnel (“**FIT**”) will also be amended effective 1 September 2026 to include clarity on the types of non-financial misconduct within scope of application of COCON and the assessment under FIT.

## **2.10 Competition Law**

The FCA has a statutory objective to promote effective competition in the interests of consumers, and the PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms. Since 1 April 2015, the FCA has assumed concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems. There is a memorandum of understanding between the FCA and the CMA that sets out how they will work together in relation to competition law.

Following a market study into general insurance pricing practices, and subsequent consultation, the FCA published a policy statement (PS21/5) in May 2021, and an additional policy statement in August 2021 that makes minor changes to these rules. The policy statement implements a package of robust remedies including requiring firms to offer a renewal price that is no higher than the equivalent new business price for that customer through the same sales channel. A multi firm review by the FCA on general insurance pricing attestations, which was published on 2 December 2022, found that overall, most firms in the review had taken appropriate action to implement appropriate systems and controls to enable them to comply with the rules, however some smaller firms lacked the records and evidence to demonstrate how they were compliant.

## **2.11 UK Operational Resilience Regime**

In March 2021, the FCA, the BoE and the PRA published their final rules and guidance regarding new requirements to strengthen operational resilience in the financial services sector, which entered into force on 31 March 2022 (the “**UK Operational Resilience Regime**”). The Issuer and the other Regulated Entities are subject to the UK Operational Resilience regime. The regime is designed to ensure that banks and other critical financial services providers can prevent, adapt, respond to, recover, and learn from operational disruptions that could impact services provided to their customers. Under the regime, the Issuer and the other Regulated Entities are expected to:

- Identify important business services: These are services that, if disrupted, could pose a risk to the Issuer’s and the other Regulated Entities’ viability, financial stability, or consumer harm.
- Set impact tolerances: For each identified important business service, the Issuer and the other Regulated Entities must establish a tolerance level for disruption and prepare to be able to operate within those tolerances at all times.
- Map and test: The Issuer and the other Regulated Entities must map the people, processes, technology, facilities, and information necessary to deliver each important business service and test its ability to remain within the set impact tolerances through a range of severe but plausible disruption scenarios.

In November 2024 the FCA and PRA jointly published a policy statement on operational resilience and critical third parties to the UK financial sector (PS16/24). The policy statement sets out the regulators’

final rules on the critical third parties regime which took effect from 1 January 2025. Under the new regime, HM Treasury may designate certain third-parties that provide services to regulated firms ‘critical’, if in its opinion, a failure in or disruption to the provision of the services provided could threaten the stability of, or confidence in, the UK financial system. The regulators have powers to make rules, gather information from, and take enforcement action against, designated critical third parties.

In December 2024, the FCA and PRA published consultation papers on proposals to set requirements in rules and expectations for firms to report operational incidents and their material third-party arrangements. These propose to establish a framework for timely, accurate and consistent reporting of certain operational incidents, and notification and reporting of material third-party arrangements.

## DESCRIPTION OF THE ORDINARY SHARES

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

For the purposes of this section entitled “Description of the Ordinary Shares”, “Legislation” means every statute (and any orders, regulations or other subordinate legislation made under it) applying to the Issuer.

### Share Capital

The issued and fully paid share capital of the Issuer as at 27 January 2026 is:

Class	Issued and fully paid		
	Nominal Value	Number	Amount
	<i>(pence each)</i>		<i>(£)</i>
Ordinary.....	100	197,404,960	197,404,960

The number and nominal amount of ordinary shares is subject to change as a result of share buybacks.

The Issuer only has ordinary shares in issue which are governed by the laws of England and Wales. The shareholders of the Issuer passed ordinary resolutions on 5 March 2025 to authorise the directors to allot equity securities in the Issuer of up to £30,800,000 in relation to any issue of any Additional Tier 1 Securities (as defined therein) that automatically convert into or are exchanged for ordinary shares of the Issuer and to do so free of the restriction in section 561 of the Companies Act 2006. Such authorisations expire at the end of the Issuer’s Annual General Meeting to be held in 2026 or the close of business on 4 June 2026 (whichever is earlier), unless otherwise renewed, varied or revoked.

### Share Buybacks

From time to time, the Issuer may carry out share buybacks. Since 2015, the Issuer has returned capital in the amount of £633 million to shareholders via share buybacks. On 3 December 2025, the Issuer announced a further £50 million share buyback for the coming financial period. The Issuer holds purchased shares as treasury shares which it may cancel from time to time.

### Articles of Association

The Issuer’s articles of association (the “Articles of Association”) were adopted by special resolution of the Issuer on 24 February 2021. A summary of the material provisions of the Articles of Association in respect of the Ordinary Shares is set out below.

### Voting Rights

Subject to any rights or restrictions attached to any shares as to voting (as to which there are none at present, save that treasury shares do not carry voting rights) and to any other provisions of the Articles of Association, and subject to disenfranchisement in the event of non-payment of any call or other amount due and payable in respect of any share or non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares, members shall be entitled to vote at a general meeting whether on a show of hands or as provided in the Legislation (which is currently one vote for every member present in person or by proxy on a show of hands and one vote in respect of each share held on a poll).

## **Governing Law**

The Articles of Association and the laws of England and Wales govern the relationship between the Issuer and its members.

## **Dividends**

Subject to the provisions of the Legislation, the Issuer may by ordinary resolution declare dividends in accordance with the respective rights of the members, and the directors may decide to pay interim dividends. No dividend or interim dividend shall exceed the amount recommended by the board.

Any resolution declaring a dividend may specify that the same shall be payable to the persons registered as the holders of the relevant shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Any dividend or other sums payable on or in respect of any shares which has remained unclaimed for six years from the date on which it became due for payment shall, if the board so resolves, be forfeited and shall revert to the Issuer.

Subject to the provisions of the Legislation, the board may pay interim dividends if it appears to them that they are justified by the profits of the Issuer available for distribution. If the Issuer's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.

A general meeting declaring a dividend may, upon the recommendation of the board, direct that it shall be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company.

Subject to the Companies Act 2006 and the Articles of Association, the Issuer may by ordinary resolution offer to shareholders the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the board) of any dividend specified by the ordinary resolution.

## **Method of Payment**

The Issuer may pay any dividend or other amount payable in respect of a share in the Issuer as the directors may decide. If a shareholder does not specify an address, or does not specify an account of a type prescribed by the directors, or does not specify other details, and in each case that information is necessary in order to make a payment of a dividend or other money in the way in which the directors have decided that the payment is to be made or by which the shareholder has validly elected to receive the payment; or payment cannot be made by the Issuer using the information provided by the shareholder, then the dividend or other money will be treated as unclaimed.

## **Transfer of Shares**

(a) Subject to the Articles of Association, shares of the Issuer are free from any restriction on transfer.

- (b) Certificated shares may be transferred by means of an instrument of transfer in any usual form or in any other form approved by the directors, which is executed by or on behalf of:
  - (i) the transferor; and
  - (ii) (unless the share is fully paid) the transferee.
- (c) Unless the Articles of Association say otherwise, any shareholder can transfer some or all of his CREST shares to another person. A transfer of CREST shares must be made through CREST and must comply with the uncertificated securities rules.
- (d) The transferor shall be deemed to remain the holder of the share until the transferee's name is entered in the register of members as the holder of it.
- (e) The directors may refuse to register the transfer of a certificated share unless the instrument of transfer:
  - (i) is lodged, duly stamped, at the office or at such other place as the board may appoint accompanied by the certificate for the shares to which it relates and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer;
  - (ii) is in respect of only one class of shares; and
  - (iii) is in favour of not more than four transferees.
- (f) Registration of a transfer of CREST shares can be refused in the circumstances set out in the uncertificated securities rules and where, in the case of a transfer to joint holders, the number of joint holders to whom the CREST share is to be transferred exceeds four.
- (g) If the board refuses to register the transfer, it shall within two months after the date on which the instrument of transfer was lodged with the Issuer send to the transferee notice of the refusal, together with reasons for the refusal.
- (h) Where a shareholder has not yet been entered on the register, the directors can recognise a renunciation by that person of his right to the share in favour of some other person. Such renunciation will be treated as a transfer and the directors have the same powers of refusing to give effect to such a renunciation as if it was a transfer.

### **Variation of Rights**

Subject to the provisions of the Legislation, if at any time the capital of the Issuer is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Issuer is being wound up, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of such holders (but not otherwise) validly held in accordance with the Articles of Association.

Unless otherwise provided by the rights attached to any shares, those rights shall be deemed to be varied by the reduction of the capital paid up on the shares and by the allotment of further shares ranking in priority for payment of a dividend or in respect of capital or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares, but shall not otherwise be deemed to be varied by the creation or issue of further shares or if the Issuer purchases or redeems any of its own shares.

## **Redeemable Shares in the Issuer**

Subject to the provisions of the Legislation and to any rights attaching to existing shares, the Issuer may create and issue shares which are to be redeemed or are liable to be redeemed at the option of the Issuer or the holder. The board may determine the terms, conditions and manner of redemption of any such shares.

## **Admission to Trading of the Ordinary Shares**

The Ordinary Shares have a listing in the United Kingdom.

In the United Kingdom, the Ordinary Shares currently in issue are listed on the equity shares (commercial companies) category of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities. The London Stock Exchange dates back to 1801 and the London Stock Exchange's regulated market is regulated by the FCA.

For the financial year to date from 1 October 2025 to the end of December 2025, the average daily trading volume of all order book trading on the London Stock Exchange was approximately 341,107 shares. Price and trading information is available on the London Stock Exchange's website which is continually updated with a 15 minute time delay. The trading prices of the Ordinary Shares and daily trading volumes are published on the London Stock Exchange's website and in the London Stock Exchange's Daily Official List. The ISIN of the Ordinary Shares is GB00B2NGPM57. Further information about the London Stock Exchange can be obtained from the website of the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

## TAXATION

### United Kingdom Taxation Considerations

The following is a summary of United Kingdom taxation law in force at the date hereof as applied in England and Wales in relation to certain aspects of payments of principal and interest in respect of the Notes and certain UK stamp duty and stamp duty reserve tax implications of acquiring, holding and disposing of the Notes. Save where expressly stated to the contrary, it is based on current United Kingdom law as applied in England and Wales and the published practice of HMRC, which may not be binding on HMRC and may be subject to change, sometimes with retrospective effect, in each case as of the latest practicable date before the date of this Offering Circular. It assumes that the Finance (No. 2) Bill 2025-26, as ordered to be printed on 4 December 2025, will be enacted without amendment. The comments do not deal with all 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.

### UK Withholding Tax

1. The Notes issued by the Issuer which carry a right to interest will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange (within the meaning of section 1005 of the Income Tax Act 2007 (the “Act”) for the purpose of section 987 of the Act) or admitted to trading on a “multilateral trading facility” operated by a regulated recognised stock exchange (within the meaning of sections 987 and 1005 of the Act). Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

The Issuer’s understanding is that the ISM is a multilateral trading facility operated by a regulated recognised stock exchange (The London Stock Exchange) for these purposes and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be admitted to trading on that market and it is and remains a multilateral trading facility operated by a regulated recognised stock exchange within the meaning of sections 987 and 1005 of the Act.

2. If the exemption above does not apply, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief or exemption as may be available. From April 2027, provisions in the Finance (No.2) Bill 2025-2026, as ordered to be printed on 4 December 2025, provide that the rate of withholding will be equal to the savings basic rate of income tax, and that such rate will increase to 22%.

## 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.

## UK stamp duty and stamp duty reserve tax

1. The Finance Act 2019 introduced a new regime for hybrid capital instruments (the “**HCI rules**”). The HCI rules contain an exemption from all stamp duties so that no liability to United Kingdom stamp duty or stamp duty reserve tax (“**SDRT**”) should arise on the issue or transfer of the Notes **provided that** the Notes each constitute a “hybrid capital instrument” for the purposes of the HCI rules and there are no arrangements, the main purpose, or one of the main purposes, of which is to secure a tax advantage for the Issuer or any other person.

The Notes should constitute “hybrid capital instruments” for the purposes of the HCI rules **provided that**:

- the Issuer is entitled to defer or cancel a payment of interest under the Notes;
- the Notes “have no other significant equity features”; and
- the Issuer has made an election in respect of the Notes which has effect for the relevant period.

The Notes would “have no other significant equity features” **provided that**:

- the Notes carry neither significant voting rights in the Issuer nor a right to exercise a dominant influence over the Issuer;
- any provision in the Notes for altering the amount of the principal is limited to write-down or conversion events in certain qualifying cases and that is not a right exercisable by the Holders; one of the qualifying cases is where a provision is included solely because of a need to comply with a regulatory or other legal requirement; and
- any provision for the Holder to receive anything other than interest or principal is limited to conversion events in qualifying cases.

2. The Issuer will make a hybrid capital instrument election in respect of the Notes upon issuance, in accordance with the provisions of Section 475C of the Corporation Tax Act 2009, which takes effect from issuance and the Notes are not being issued in consequence of, or otherwise in connection with, any arrangements, the main purpose, or one of the main purposes of which, is to secure a tax advantage for the Issuer or any other person. Consequently, the Issuer believes that the HCI rules should apply to the Notes such that they would benefit from the exemption from all stamp duties so that no liability to United Kingdom stamp duty or SDRT should arise on the issue or transfer of the Notes (including where an election under section 97A of the Finance Act 1986 applies to the Notes).
3. No United Kingdom stamp duty or SDRT will be payable by a Holder on a cash redemption of the Notes in accordance with the Conditions.

4. No liability to United Kingdom stamp duty or SDRT will arise for a Holder on the redemption or release of the Notes, and the issue of any Conversion Shares, under an Automatic Conversion of the Notes into Conversion Shares in accordance with the Conditions.
5. United Kingdom stamp duty and SDRT may be payable in relation to a Conversion Shares Offer.
6. The above description of the United Kingdom stamp duty and SDRT position does not deal with the issue, transfer or agreement to transfer of any Conversion Shares.

## **Other Taxation**

### **The U.S. Foreign Account Tax Compliance Act (“FATCA”)**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “**foreign financial institution**” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements.

A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date of publication of the final regulations defining “foreign passthru payments”. Notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer) and/or characterised as equity for U.S. tax purposes. However, if additional notes (as described under Condition 17 (*Further Issues*)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

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

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or which may be implemented in a materially different form. Prospective Holders should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.**

## SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 3 February 2026, agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of their principal amount less a combined commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

The Joint Lead Managers will be entitled in certain circumstances to be released and discharged from their obligations in respect of the issue of Notes under or pursuant to the Subscription Agreement prior to the closing of the issue of the Notes, including in the event that certain conditions precedent are not delivered or met to their satisfaction on or before the Issue Date. In this situation, the issuance of the Notes may not be completed. Investors will have no rights against the Issuer or the Joint Lead Managers in respect of any expense incurred or loss suffered in these circumstances.

### **Selling Restrictions**

#### **United States**

The Notes and the Conversion Shares into which they may convert have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold 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. Terms used in this paragraph have the meanings given to them by Regulation S.

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 represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“**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 any Notes in, from or otherwise involving the United Kingdom.

### **Prohibition of Sales to EEA Retail Investors**

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II.

### **Prohibition of Sales to UK Retail Investors**

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the United Kingdom. For the purposes of this provision the expression “**retail investor**” means a person who is neither:

- (a) a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; nor
- (b) qualified investor as defined in paragraph 15 of Schedule 1 to the POATRs.

### **Canada**

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

### **Republic of Italy**

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Lead Manager has represented that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Offering Circular or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or

- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) *made* by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

### **Singapore**

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore, as modified and amended from time to time (the “**SFA**”) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

### **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 has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to 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. As used in this paragraph, “**resident of Japan**” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### **General**

No action has been taken by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required.

Each Joint Lead Manager has agreed that it will, to the best of its knowledge and belief, comply with any applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer or the Joint Lead Managers shall have any responsibility therefor.

Other persons into whose hands this Offering Circular 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 or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Circular or any related offering material, in all cases at their own expense.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Lead Manager or any parent company or affiliate of such Joint Lead Manager is a licensed broker or dealer in that jurisdiction and so agrees, the offering shall be deemed to be made by such Joint Lead Manager or such parent company or affiliate on behalf of the Issuer in such jurisdiction.

The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area or in the United Kingdom. Prospective investors are referred to the section headed “*Prohibition on marketing and sales to retail investors*” in this Offering Circular for further information.

## GENERAL INFORMATION

### Authorisation

1. The creation and issue of the Notes has been duly authorised by a resolution of the Board dated 27 November 2025 and a resolution of a sub-committee of the Board dated 21 January 2026.

### Listing and Trading

2. Application has been made to the LSE for the Notes to be admitted to trading on the ISM. The ISM is not a regulated market within the meaning of UK MiFIR. The ISM is a market designated for qualified investors (as prescribed in Regulation 16 of the POATRs). The LSE, as a Recognised Investment Exchange does not make assessments of investor eligibility. Given that under Regulation 16 of the POATRs, only qualified investors are permitted to trade on the ISM and no qualified investor is permitted to trade on behalf of persons who are not themselves qualified investors, financial intermediaries acting for investors are responsible for ensuring that only investors who are qualified investors as prescribed by Regulation 16 of the POATRs are permitted to trade on the ISM. Notes admitted to trading on the ISM are not admitted to the Official List of the Financial Conduct Authority. The LSE has not approved or verified the contents of this Offering Circular. It is expected that the admission of the Notes to trading on the ISM will be granted on or around 6 February 2026.

### 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 Offering Circular, a significant effect on the financial position or profitability of the Group.

### Significant Change

4. Since 30 September 2025, there has been no significant change in the financial position or financial performance of the Issuer and/or the Group.

### Material Change

5. Since 30 September 2025, there has been no material adverse change in the prospects of the Issuer and/or the Group.

### Auditors

6. KPMG LLP have audited without qualification, in accordance with International Standards on Auditing (UK), the Issuer's accounts for each of the two financial years ended on 30 September 2025 and 30 September 2024. KPMG LLP is registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. KPMG LLP has no material interest in the Issuer or the Group.
7. Deloitte LLP is expected to be appointed as the auditors of the Issuer prior to the end of the financial year ending on 30 September 2026, subject to shareholder approval. The Issuer's accounts for the year ended 30 September 2026 are expected to be audited by Deloitte LLP, which is registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Deloitte LLP has no material interest in the Issuer.

## **Documents on Display**

8. Physical copies of the following documents may be inspected during normal business hours at the registered office of the Issuer for so long as the Notes remain outstanding:
  - (a) the Articles of Association of the Issuer;
  - (b) the 2025 Audited Financial Statements and the 2024 Audited Financial Statements;
  - (c) the Quarter 1 Trading Update;
  - (d) the 2025 Pillar III Disclosures;
  - (e) the Trust Deed; and
  - (f) this Offering Circular.

## **Third Party Information**

9. Where information in this Offering Circular 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.

## **LEI**

10. The Legal Entity Identifier (“LEI”) of the Issuer is 213800S1TDKIB1IUTS72.

## **Issuer’s website**

11. The Issuer’s website is <https://www.paragonbankinggroup.co.uk/>. Unless specifically incorporated by reference into this Offering Circular, information contained on the website does not form part of this Offering Circular.

## **Clearing**

12. The Notes have been accepted for clearance through the Clearing Systems. The ISIN is XS3282197865 and the common code is 328219786.
13. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

## **Joint Lead Managers Transacting with the Issuer**

14. The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. The Joint Lead Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the 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 the Issuer's affiliates including, without limitation, the Notes. The Joint Lead Managers and/or their affiliates may receive allocations of Notes (subject to customary closing conditions), which may affect the future trading of the Notes. The Joint Lead Managers and 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, the 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 positions could adversely affect future trading prices of 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.

**REGISTERED OFFICE OF THE ISSUER**

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**REGISTRAR AND TRANSFER AGENT**

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**TRUSTEE**

**Citicorp Trustee Company Limited**

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*Legal Advisers to the Joint Lead Managers and the Trustee as to English law:*

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**AUDITORS**

*To the Issuer and the Group in respect of the financial years ended 30 September 2024 and 30 September 2025*

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United Kingdom