



PARAGON BANKING GROUP PLC

(incorporated with limited liability in the United Kingdom)

£150,000,000 4.375 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2031

The issue price of the £150,000,000 4.375 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2031 (the "Notes") of Paragon Banking Group PLC (the "Issuer") is 100 per cent. of their principal amount.

From (and including) 25 March 2021 (the "Issue Date") to (but excluding) 25 September 2026 (the "Reset Date"), the Notes will bear interest at the rate of 4.375 per cent. per annum. From (and including) the Reset Date to (but excluding) the Maturity Date (as defined below), the Notes will bear interest at a rate which is the aggregate of the initial margin of 3.956 per cent. per annum and the applicable Reference Bond Rate (as defined herein). Interest will be payable semi-annually in arrear on 25 March and 25 September of each year commencing on 25 September 2021. Payments on the Notes will be made in pounds sterling without deduction for or on account of taxes imposed or levied by the United Kingdom (the "UK") or any political subdivision or any authority thereof or therein having power to tax, except in the circumstances described under "Terms and Conditions of the Notes—Taxation".

Unless previously redeemed, purchased or cancelled, the Notes will be redeemed at their principal amount on 25 September 2031 (the "Maturity Date"). Subject to certain conditions set out in "Terms and Conditions of the Notes—Redemption, 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 unpaid interest accrued (as defined herein) on any day (from and including) 25 June 2026 to (and including) the Reset Date. In addition, and subject to certain conditions set out in "Terms and Conditions of the Notes—Redemption, Purchase, Substitution and Variation", the Notes may be redeemed at any time upon the occurrence of certain tax events due to changes to law or upon a change in the regulatory classification of the Notes that results, or would be likely to result, in the whole or any part of the principal amount of the Notes at any time being excluded from the Group's Tier 2 Capital (as defined herein), all as more particularly provided in "Terms and Conditions of the Notes—Redemption, Purchase, Substitution and Variation".

This Prospectus has been approved by the UK Financial Conduct Authority (the "FCA") as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129 as it forms part of the domestic law of the UK by virtue of the EUWA. Such approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of any Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in such Notes. This Prospectus is valid for twelve months. For the avoidance of doubt, the Issuer shall have no obligation to supplement this Prospectus after the end of the offer or admission to trading of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the FCA (the "Official List") and to trading on the Main Market of the London Stock Exchange plc (the "London Stock Exchange") and on the Sustainable Bond Market of the London Stock Exchange.

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

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

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

The Notes will be rated BB+ by Fitch Ratings Ltd. ("Fitch"). Fitch is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law of the UK by virtue of the EUWA (the "UK CRA Regulation"). Fitch appears on the latest update (as of 12 March 2021) of the list of registered credit rating agencies on the FCA website <https://www.fca.org.uk/markets/credit-rating-agencies/registered-certified-cras>. The rating that Fitch has given to the Notes is expected to be endorsed by Fitch Ratings Ireland Limited, which is established in the European Economic Area (the "EEA") and registered under Regulation (EC) No 1060/2009, as amended (the "EU CRA Regulation"). Fitch Ratings Ireland Limited appears on the latest update (as of 12 March 2021) of the list of registered credit rating agencies on the European Securities and Markets Authority ("ESMA") website <http://www.esma.europa.eu>.

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

JOINT LEAD MANAGERS

Barclays

BofA Securities

UBS Investment Bank

Dated: 23 March 2021

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and this Prospectus makes no omission likely to affect its import.

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

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

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

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

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

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

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

The Notes are not protected by the Financial Services Compensation Scheme (the "**FSCS**"). The Notes form part of the regulatory capital of the Group. Banks are required to hold regulatory capital to absorb losses (before depositors and other senior creditors suffer losses), including during periods of financial stress. As a provider of capital to the Issuer, an investor in the Notes should be prepared to suffer losses on its investment if, in particular, the Issuer, the Group 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 UK 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. See "*Risks Relating to the Notes – Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*", "*Risks Relating to the Notes – The Notes are subordinated to most of the Issuer's liabilities*" and "*Risks Relating to the Notes – The Issuer is a holding company and the Notes will be obligations exclusively of the Issuer*".

The Notes are complex financial instruments and such instruments may be purchased by investors as a way to 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 Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets and with the resolution regime applicable to the Issuer and the Group, including the possibility that the Notes may become subject to write-down or conversion if the resolution powers are exercised;
- (iv) 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; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

None of the Joint Lead Managers accepts any responsibility for any social, environmental and sustainability assessment of the Notes or makes any representation or warranty or assurance whether the Notes will meet any investor expectations or requirements regarding such "green", "sustainable", "social" or similar labels. None of the Joint Lead Managers is responsible for the use of proceeds for the Notes, nor the impact or monitoring of such use of proceeds. No representation or assurance is given by the Joint Lead Managers as to the suitability or reliability of any opinion or certification of any third party that may be made available in connection with the Notes, nor is any such opinion or certification a recommendation by any Joint Lead Manager to buy, sell or hold the Notes. No representation or assurance is given by the Joint Lead Managers that the admission to trading of the Notes to the Sustainable Bond Market of the London Stock Exchange will be obtained or maintained for the lifetime of the Notes.

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

In this Prospectus, unless otherwise specified, references to "£", "**Sterling**" or "**pounds sterling**" are to the lawful currency of the UK, references to "EU" are to the European Union.

In this Prospectus, all references to the "**Group**" are to the Issuer and its subsidiaries taken as a whole.

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

UK MiFIR product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of each 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 FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any distributor should take into consideration the manufacturers'

target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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 MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**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 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 UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as 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. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law 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.

In connection with the issue of the Notes, Merrill Lynch International (the "Stabilisation Manager") (or persons acting on behalf of the Stabilisation Manager) may over allot Notes or effect transactions with a view to supporting the 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 Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

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

1. the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 30 September 2020 (set out on pages 152 to 285 of the 2020 annual report of the Issuer) and the appendices set out on pages 288 to 290 of the 2020 annual report of the Issuer ("**2020 Audited Consolidated Financial Statements**");
2. the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the year ended 30 September 2019 (set out on pages 148 to 275 of the 2019 annual report of the Issuer) ("**2019 Audited Consolidated Financial Statements**"); and
3. the 2020 Pillar III Disclosures of the Issuer in respect of the year ended 30 September 2020 ("**2020 Pillar III Disclosures**"),

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

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

For the avoidance of doubt, neither the Green Bond Framework, nor the Second Party Opinion (each as defined in "*Use of Proceeds*" below) are, nor shall either of them be deemed to be, incorporated in, and/or form part of, this Prospectus.

Unless specifically incorporated by reference into this Prospectus, information contained on any website referred to in this Prospectus does not form part of this Prospectus.

OVERVIEW

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

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

Investing in the Notes involves significant risk. For a discussion of certain risks that should be considered in connection with an investment in the Notes, see "Risk Factors" beginning on page 9 of this Prospectus.

Issuer:	Paragon Banking Group PLC
Joint Lead Managers:	Barclays Bank PLC, Merrill Lynch International and UBS AG London Branch
Trustee:	Citicorp Trustee Company Limited
Registrar:	Citibank, N.A., London Branch
Principal Paying Agent and Agent Bank:	Citibank, N.A., London Branch
Notes:	£150,000,000 4.375 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2031
Issue Price:	100 per cent. of the principal amount of the Notes
Issue Date:	25 March 2021
Use of Proceeds:	The proceeds of the issue of the Notes will be used as set out in " <i>Use of Proceeds</i> ".
Interest:	The Notes will bear interest on their outstanding principal amount from (and including) the Issue Date to (but excluding) the Reset Date at a rate of 4.375 per cent. per annum. From (and including) the Reset Date to (but excluding) the Maturity Date, the Notes will bear interest at a rate which is the aggregate of the initial margin of 3.956 per cent. and the Reference Bond Rate (as determined by the Agent Bank on the date falling two Business Days prior to the Reset Date). Interest will be payable semi-annually in arrear on 25 March and 25 September of each year commencing 25 September 2021.
Status and Subordination of the Notes:	The Notes constitute direct, unsecured and subordinated obligations of the Issuer, ranking <i>pari passu</i> without any preference among themselves. On a winding up or administration of the Issuer, claims of Noteholders and the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) against the Issuer in respect of or arising under the Notes (including any damages awarded for breach of any obligations in respect of the Notes) will be subordinated in the manner provided in the Conditions and in the Trust Deed to the claims of all Senior Creditors but shall rank:

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

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

Pursuant to the Order, 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 ahead of any claims in respect of the Notes. The terms 'ordinary non-preferential debt', 'secondary-non preferential debt' and 'tertiary non-preferential debt' shall have the meanings given to each of them in the Order and any other law or regulation applicable to the Issuer which is amended by the Order, as each may be amended or replaced from time to time.

Form and Denomination:

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

Maturity Date:

25 September 2031

Optional Redemption:

Subject to Supervisory Permission and compliance with the Regulatory Preconditions and on providing not less than 15 days' nor more than 30 days' prior notice to the Noteholders (which notice shall be irrevocable), the Notes may be redeemed at the option of the Issuer on any day (from and including) 25 June 2026 to (and including) the Reset Date in whole but not in part, at an amount equal to their principal amount together with any unpaid interest accrued to (but excluding) the date fixed for redemption.

Tax Redemption:

Subject to Supervisory Permission and compliance with the Regulatory Preconditions and on providing not less than 15 days' nor more than 30 days' prior notice to the Noteholders (which notice shall be irrevocable), if at any time a Tax Event occurs, the Issuer may redeem the Notes in whole, but not in part, at any time at an amount equal to their principal amount, together with unpaid interest accrued to (but excluding) the date fixed for redemption, as more fully provided in Condition 5 (*Redemption, Purchase, Substitution and Variation*).

Regulatory Event Redemption:	Subject to Supervisory Permission and compliance with the Regulatory Preconditions and on providing not less than 15 days' nor more than 30 days' prior notice to the Noteholders (which notice shall be irrevocable), if at any time a Regulatory Event occurs, the Issuer may redeem the Notes in whole, but not in part, at an amount equal to their principal amount together with any unpaid interest accrued to (but excluding) the date of redemption, as more fully provided in Condition 5 (<i>Redemption, Purchase, Substitution and Variation</i>).
Purchases:	Subject to obtaining Supervisory Permission, the Issuer or any of its Subsidiaries may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise at any time in accordance with the then prevailing Regulatory Capital Requirements.
Substitution or Variation following a Tax Event or a Regulatory Event:	Subject to Supervisory Permission and on providing not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), upon the occurrence of a Tax Event or a Regulatory Event (as applicable) the Issuer may at any time, in its sole discretion and without the consent of the Noteholders, substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become, Compliant Notes, as more fully provided in Condition 5 (<i>Redemption, Purchase, Substitution and Variation</i>).
Events of Default and Enforcement:	The remedies under the Notes are more limited than those typically available to unsubordinated creditors. The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes is, subject to certain conditions, for the Trustee to institute proceedings in England (or such other jurisdiction in which the Issuer may be organised) (but not elsewhere) for the winding-up of the Issuer and/or to prove in its winding up and/or claim in its liquidation or administration. The Notes are only capable of being accelerated upon the occurrence of a Winding-Up Event.
Taxation:	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such Additional Amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts in respect of payments of interest on the Notes as would have been receivable by them had no such withholding or deduction been required, subject to certain exceptions as described in Condition 7 (<i>Taxation</i>).
Rating:	<p>The Notes will be rated BB+ by Fitch. Fitch is established in the UK and registered under the UK CRA Regulation. Fitch appears on the latest update (as of 12 March 2021) of the list of registered credit rating agencies on the FCA website https://www.fca.org.uk/markets/credit-rating-agencies/registered-certified-cras. The rating Fitch has given to the Notes is expected to be endorsed by Fitch Ratings Ireland Limited, which is established in the EEA and registered under the EU CRA Regulation. Fitch Ratings Ireland Limited appears on the latest update (as of 12 March 2021) of the list of registered credit rating agencies on the ESMA website http://www.esma.europa.eu.</p> <p>A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>

Governing Law:	The Notes, the Trust Deed, the Agency Agreement and the Subscription Agreement, and any non-contractual obligations arising out of or in connection with them are governed by English law.
Agreement with respect to the exercise of the Bail-in Power:	The Conditions contain a consent by the Noteholders to the exercise of the Bail-in Power by the Resolution Authority. No repayment or payment of Amounts Due on the Notes shall become due and payable or be paid after the exercise of any Bail-in Power by the Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, amended or altered as a result of such exercise.
Listing and Trading:	Applications have been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Main Market of the London Stock Exchange and the Sustainable Bond Market of the London Stock Exchange.
Clearing Systems:	Euroclear and Clearstream, Luxembourg
Selling Restrictions:	See " <i>Subscription and Sale</i> "
ISIN:	XS2312738599
Common Code:	231273859

RISK FACTORS

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

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

RISKS RELATING TO THE ISSUER

Business Risks

The Group could be materially affected by a downturn or disruption in the UK economy and the UK's exit from the European Union

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

The outlook for the UK economy is uncertain, particularly in the short and medium term in light of the outbreak of the Covid-19 pandemic, and also the UK's decision to leave the European Union.

The UK experienced a significant contraction in economic activity during 2020, which has continued into 2021, as a result of the Covid-19 pandemic and associated government intervention to reduce the spread of the virus. While it is difficult to predict the level and duration of the economic impact of Covid-19 on the UK and global economy at this stage, both the direct health impact of the virus and measures adopted with a view to containing its spread (including lock-downs, travel restrictions and temporary business shut-downs or reduction of capacity and output) have had and are expected to continue to have a material adverse effect on economic conditions and financial markets in the UK and globally at least until the pandemic is under control. See "*Risks relating to the impact of Covid-19*".

The trade and co-operation agreement between the European Union and the UK came into force on 1 January 2021. Whilst this does provide a framework for future trade relations between the European Union and the UK it still represents a significant shift for the UK economy from membership in the European Union. Furthermore, several areas are not covered by the agreement, such as financial services and data protection, and over time non-tariff barriers may develop even in areas covered by the agreement. As a consequence, the impact on the UK economy of the UK's exit from the European Union is highly uncertain and failure to agree on or delay to the expansion of the agreement could lead to further uncertainty.

A downturn in business conditions or in the UK economy or increased financial market volatility or economic or market disruption (including any such downturn, volatility or disruption caused by the impact of the Covid-19 pandemic or the UK's exit from the European Union) 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.

Risks relating to the impact of Covid-19

The Covid-19 pandemic has resulted in unprecedented restrictions on individuals and businesses all around the world, and materially impacted the global economy. Despite significant government intervention, the Covid-19 pandemic has severely impacted both the UK and global economies and the economic environment in which we operate. Any such economic downturn, particularly in the UK housing market, has the potential to impact the Group's business. The pandemic is having far-reaching impacts on the

Group's financial performance, credit profile, the way the Group interacts with its customers and its business operations.

The pandemic is likely to cause interest rates to remain at historically low levels (and there is speculation about the possibility for the Bank of England base rate to move to a negative rate), and will result in longer term economic effects, potentially putting pressure on the Group's financial performance. The potential introduction of negative interest rates may place further pressure on the Group's margins.

With the spread of Covid-19 and the accompanying restrictions, the Group has modified certain operational practices and may take further actions, as required or as the Group determines necessary, in order to protect the best interests of the Group's employees, customers, third party providers and other stakeholders. Throughout the Covid-19 outbreak, the Group has implemented the following modifications in relation to the following key internal risks:

- *People risk* – the Group has implemented measures to ensure that its staff remain safe and supported at work, including transitioning its workplace to comply with Government Covid-19 guidance and enabling most of its staff to work from home. The Group continue to monitor the impact of any restructuring and business transformation activities to ensure that impacted employees are appropriately supported, however, with the evolving government regulations and heightened compliance risk associated with working from home, there can be no assurance that the Group will be able to continue to mitigate the risks posed by Covid-19 in relation to working from home.
- *Third party risks* – the Covid-19 pandemic has resulted in additional constraints and risks for several of the Group's third-party providers. Throughout the pandemic the Group has worked closely with its suppliers to identify and manage these risks and ensure customer services are maintained and uninterrupted, however, there can be no assurance that the Group will be able to continue to mitigate the risk of interruptions to third party services posed by Covid-19.
- *Model risk* – the severity of the economic shock, combined with the introduction of government support measures and new regulatory requirements, highlights the importance of effective model controls and regular review of their use to reflect current circumstances. The Group continues to monitor model performance rigorously and to strengthen its model suite to ensure it supports key business and risk management activities, however the degree to which Covid-19 impacts the Group's business, results of operations and financial position will depend on future developments, which are uncertain and cannot be predicted.

As well as increased credit risk, including through unemployment and corporate insolvencies which could adversely impact the Group's customers and their ability to meet their obligations to the Group, there are likely to be heightened operational risks as the Group responds to the pandemic, including in the areas of cyber, fraud, people, technology and operational resilience. While the Group has initiated an ongoing programme of model surveillance and extended monitoring of key models to understand the short term effects, apply appropriate mitigating actions and develop long term plans to improve model resilience, there can be no assurance that the Group will be able accurately to model or adequately address the impacts of Covid-19.

In addition, there is an increased risk of material misstatement of expected credit losses under IFRS 9 due to the degree of judgment and inherent uncertainty in the assumptions underlying the reported provisions as a result of the impact of Covid-19. For the purposes of preparing the Group's financial statements for the year ended 30 September 2020, revised economic scenarios and probability weights have been used to model losses in the residential mortgage, commercial lending and Idem portfolios.

This has resulted in an increase in balance sheet provisions of £48.3 million at 30 September 2020 (comprising provisions of £25.8 million, £21.7 million and £0.8 million, respectively, in mortgage lending, commercial lending and Idem capital portfolios). See "*Description of the Issuer – Business of the Issuer – Payment holidays*". The mortgage provision includes estimated credit losses associated with payment holidays granted to borrowers as a result of Covid-19, recognising that in some cases borrowers will experience longer term financial difficulty as a result of the pandemic. Payment holidays or other similar concessions have been offered on all loan products. Unlike other concessions granted to borrowers in financial difficulty, these payment holidays have not been subject to detailed affordability assessments, and therefore the level of financial difficulty of the members and customers who apply for them requires

estimation. The increase in the reported provisions for the year ended 30 September 2020 reflects the risk associated with borrowers who requested payment holidays as a result of Covid-19. Given the significant uncertainties regarding the level and duration of the impact of Covid-19 and the responses thereto by government and regulators in the UK and globally, there can be no assurance that the estimates and modelling by the Group will prove accurate or be sufficient to cover actual losses or impairments as a result of Covid-19.

Additionally, the FCA has issued guidance that prevents repossessions before 1 April 2021. As at 30 September 2020, 623 properties were managed by a receiver on the customer's behalf, a reduction of 8.8 per cent. since as at 30 September 2019 (683 properties). Almost all of these cases currently relate to pre-2010 lending, with cases being resolved on a long-term basis to ensure the best outcome for the Group, landlord and tenants.

The financial impact on the Group from these and any further measures taken to support its customers during and after the Covid-19 pandemic could have a material adverse effect on the Group's profitability, financial condition and results of operations. These effects could be exacerbated if future waves of Covid-19 materialise and further government restrictions are required. Any and all such events and measures described above could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings (including potential changes of outlooks or ratings), as well as on the Group's customers, borrowers, counterparties, employees and suppliers.

The Group is heavily 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, supply of rental property, demographic changes and government policy.

The year ended 30 September 2020 has seen the buy-to-let mortgage market continuing to reshape following a period of sustained fiscal and regulatory intervention.

The buy-to-let market has been disrupted as a result of a series of government fiscal policy and regulatory interventions, principally:

- (a) the introduction of a 3-percentage point stamp duty land tax surcharge, Welsh land transaction tax surcharge (which is generally an additional rate of 3 per cent.) and higher capital gains tax rate on buy-to-let properties than on the disposal of other assets;
- (b) the restriction of income tax relief on finance costs for buy-to-let landlords, which has reduced activity by amateur non-portfolio landlords (those with fewer than four properties), although the Group's main target is professional landlords who have increasingly been placing properties into corporate structures;
- (c) regulatory changes affecting buy-to-let lending (e.g. the PRA's introduction of common standards for affordability testing in the buy-to-let sector and lenders being required to underwrite portfolio buy-to-let cases on a much more specialised basis, differentiating between portfolio and non-portfolio landlords, based on the number of properties owned with buy-to-let finance); and
- (d) the implementation of the Mortgage Credit Directive, which has resulted in the implementation of additional regulatory and registration requirements for consumer buy-to-let mortgages.

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

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

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

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

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

The UK financial services market is highly competitive and the Group faces competition in all markets in which it operates including buy-to-let and residential mortgages, development finance, commercial lending, debt purchase and retail savings. Competitors in the buy-to-let and residential mortgage market range from the large multi-product high street banks to small highly specialised operations. Competitors in the development finance sector include banks and private capital firms. In the debt purchase market, competitors are listed public companies and private equity funds. In the savings and commercial lending market, competitors range from other niche specialised lenders to large high street banks.

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

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

Risks related to climate change.

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to the Group's business without a coordinated and timely response.

Climate change, and businesses' response to the emerging threats, are under increasing scrutiny by governments, regulators, shareholders, investors and the public. These include physical risks, such as flooding resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon economy.

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 efficiency standards for domestic properties also has the potential to impact the buy-to-let market and the energy performance of property stock and could reduce the value of the security the Group takes.

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.

Operational Risks

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 a large number of 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 methods designed to identify, assess and manage the various risks which it faces and the Group is increasingly relying on internally developed models in order to inform its financial decision making. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods the Group utilises for risk management are based on the evaluation of markets, customers or other information that is publicly known or otherwise available to the Group. This information may not always be correct, updated or correctly evaluated. Furthermore, whilst the Group has over 20 years of buy-to-let performance data on its most mature and significant franchise, in respect of certain products, the Group has a more limited operating history and, consequently, does not have as long a track record on which it can assess the performance of its systems and processes. As such, it may be difficult to predict changes in economic or market conditions and to anticipate the effects that any such 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.

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

As a lender and debt purchaser, the Group is inherently exposed to risks arising from changes in the credit quality and the recoverability of amounts due from borrowers. Adverse changes in the credit quality of the Group's borrowers could result from a number of factors including but not limited to, a general deterioration in UK economic conditions, increases in interest rates charged, or changes in personal or business circumstances. The majority of the Group's loans charge a variable interest rate, either from the date the funds are lent or after an initial fixed rate period (see "*The Group is exposed to risks related to the LIBOR transition*"). Increased borrower default risk can result from an increase in interest rates for borrowers who are subject to a variable interest rate. Any deterioration in UK economic conditions could lead to generally weaker than expected growth, contracting GDP, reduced business confidence, higher levels of unemployment, rising inflation, higher interest rates and falling property and asset prices which could consequently lead to an increase in delinquency rates and default rates by the Group's customers. Increased numbers of defaults by the Group's customers may reduce the recoverability and value of the Group's assets and require an increase in the level of provisions for impairment. At the onset of the Covid-19 pandemic, the Group tightened credit criteria for new lending to preserve credit standards and reflect economic uncertainty but this may not be effective to mitigate credit risk.

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

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

The threat posed by cyber attacks continues to grow, with activists, nation states, criminal gangs, insiders and opportunists among those targeting computer systems. Given the increasing sophistication and scope of potential cyber attacks, it is possible that future attacks may lead to significant breaches of security. The occurrence of one or more of such events may jeopardise the Group or the Group's clients' or counterparties' confidential and other information processed and stored in, and transmitted through, the Group's computer systems and networks, or otherwise cause interruptions or malfunctions in the Group's clients',

counterparties' or third parties' operations, which could impact their ability to transact with the Group or otherwise result in significant losses or reputational damage.

The Group relies on third party providers for a number of key services including in the provision of its savings offering and in respect of critical IT services. The robust oversight of third parties is seen as critical to overall resilience and if such oversight is not sufficiently robust critical IT services could fail and damage the Group's 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 supported by certification with appropriate internationally defined standards assists the Group with maintaining compliance to UK and EU law and regulations surrounding information security. Notwithstanding these measures there is a risk of disruption of the Group's systems or loss or disclosure of sensitive data as a result of cyber-crime or from the actions of a careless or malicious insider, which could result in damage to the reputation of the Group, losses from reductions of business volumes or lost contracts, fines from regulators or damages arising as a result of legal action.

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

The Group is exposed to risks related to the LIBOR transition

Reference rates and indices, including interest rate benchmarks, such as London Interbank Offered Rate ("**LIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued.

The Group is exposed to a range of LIBOR-linked assets, liabilities and derivatives that will be impacted by the phasing out of LIBOR in 2021. The Group will need to transition LIBOR referenced assets and liabilities to alternative risk-free rates, and this process is expected to increase interest rate risk over the next 12 months. A delay or failure by us to manage the transition across the Group's balance sheet in a consistent and timely manner could have a material adverse effect on its business, financial performance and results of operations, and may result in regulatory fines or other action. In addition, where the transition affects the Group's products with its customers, in particular its retail customers, a failure to manage the transition in a fair and transparent manner could result in additional compliance and conduct risks, which could result in regulatory action and/or adversely affect the Group's reputation.

The Group has set up a LIBOR transition steering committee to manage the full range of transition-related issues, including the conversion of existing contracts and the impact on valuations and systems.

Uncertainty as to the nature of such potential changes, alternative reference rates (including risk-free rates) or other reforms may adversely affect a broad array of financial products, including any LIBOR-based securities, loans and derivatives that are included in the Group's financial assets and liabilities, that use these reference rates and may impact the availability and cost of hedging instruments and borrowings. If any of these reference rates are no longer available, the Group may incur additional expenses in effecting the transition from such reference rates, and may be subject to disputes, which could have an adverse effect on the Group's results of operations. In addition, it can have important operational impacts through the Group's systems and infrastructure as all of its systems will need to be adapted for the changes in the reference rates. Any of these factors may have a material adverse effect on the Group's results of operations, financial condition or prospects.

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

In recent years, issues associated with poor customer conduct and the delivery of unfair customer outcomes have been a significant source of cost for the financial services industry. As a provider of financial products and services to a broad customer base, which includes retail and small and medium size enterprise

customers, the Group is exposed to potential conduct risk should it fail to treat its customers fairly. This could arise, for example, if certain products fail to meet the needs of customers, customers in financial difficulties are not treated appropriately or customer complaints are handled ineffectively.

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

Given the unprecedented challenges of Covid-19 and the need to respond quickly to changing circumstances, there is a heightened risk that customer outcomes have not been fully considered or that there may be unintended consequences.

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.

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 failing to meet external expectations in conducting business practices.

The Group collaborates with a number of stakeholders (employees, customers, shareholders, brokers and suppliers) and has broad customer and supplier bases. The Group has an external relations function that aims to ensure the reputational profile 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 conducting activities that violate the Group's values, breach its code of conduct, fail to properly address potential conflicts of interest, could be perceived as unethical, treat customers unfairly 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 other actors.

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.

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

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

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

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

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

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

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

Possible exposure of the Group to fraud

As an originator and purchaser of loan assets, the Group is exposed to possible fraud by borrowers, purported borrowers, their professional advisors such as solicitors, accountants or valuers as well as by employees. Attempted fraud typically involves borrowers, either acting alone or in concert with professional advisors, seeking to obtain funds by adopting a false identity or using a false inflated property valuation or purporting to own a property or seeking a release of security without redeeming the underlying loan.

As a consequence of Covid-19, the Group's participation in government backed schemes (Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme) could expose it to credit risk, financial crime and processing risk.

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

Regulatory Risks

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

As a financial services firm, the Group is subject to extensive and comprehensive regulation. The Group conducts its business subject to ongoing regulation by the FCA and the Prudential Regulation Authority (the "PRA"). The regulatory regime requires the Group to be in compliance across many aspects of its activity, including the training, authorisation and supervision of personnel together with, systems, processes and documentation. 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 action imposed by the regulatory authorities.

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

Regulators and other policy making bodies in the UK and worldwide have produced and, in many cases, adopted a range of legislative and regulatory proposals and changes which have and could impose operational restrictions on the Group, 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. Future changes in regulation, and/or fiscal or other policies, are unpredictable and beyond

the Group's control and could have a material effect on its business or operations (see further detail in "*Capital requirements and resolution*", "*Consumer credit*" and "*Resilience*" below).

In addition, it is possible that regulatory and/or legislative changes could prompt the development of new rules to, among other things, increase competition in the markets, or analogous or competing markets, in which 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. It is impossible to predict the effect that any of the proposed changes will have on the Group's business, financial condition, results of operations and/or prospects. 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 regulatory or legislative changes that may be proposed will not have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Capital requirements and resolution

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**") in the EU and other regulatory developments impacting capital, leverage, liquidity positions (including the imposition of the Liquidity Coverage Ratio ("**LCR**") and the net stable funding ratio) and its legal entity structure (including with regard to issuance and deployment of capital and funding for the Group). For example, on 7 June 2019, substantial changes to the capital requirements framework were implemented in the European Union (and significant portions of this new framework were implemented in the UK through UK CRD prior to the end of the transitional period following the UK's departure from the European Union). The changes included setting higher capital and additional loss absorbing capacity requirements, increasing the powers of the relevant competent authorities and incorporating regulatory definition of trading activity, standardised and advanced risk-weighted asset ("**RWA**") calculation methodologies for market risk and new standardised RWA rules for counterparty credit risk.

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 (including as regards individual model approvals granted by the PRA).

For example, the Basel Committee agreed further reforms to Basel III in December 2017 in the publication entitled "*Basel III: Finalising post-crisis reforms*", including reforms relating to the standardised and internal ratings-based approaches for credit risk, and a revised output floor, which could further affect the Group's borrowing costs and capital requirements. The Basel Committee expects these 2017 reforms to be implemented by 1 January 2023 (with the exception of those relating to the output floor, which will be phased in over five years from 1 January 2023), following a 12 month deferral in light of Covid-19. The Financial Services Bill 2019-21 (being discussed by Parliament as at the date of this Prospectus), includes reforms relating to prudential regulation of banks and investment firms (such as the implementation of a number of Basel III measures which were not onshored at the end of the transition period, as they did not apply in the EU before such date), access to financial services markets and insider dealing and money laundering. It is unclear at this stage when the bill will become law.

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. Effective management of the Group's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Group's ability to manage its balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of credit losses, write downs or otherwise, increases in risk weighted assets, delays in the disposal of certain assets or the inability to raise finance through wholesale markets as a result of market conditions or otherwise) could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

In the UK, 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. These tools and powers broadly align with those applicable to relevant financial institutions in the European Union under Directive (EU) 2014/59 ("**BRRD**"), although HM

Treasury and the Bank of England have already elected to diverge from certain changes to BRRD. Further changes could be made to the recovery and resolution framework in the UK. See "*Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*". In addition, to support the effectiveness of bail-in and other resolution tools, 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 are required to meet an interim MREL equivalent to 18 per cent. of risk-weighted assets. Such institutions will be required to meet their end-state MREL equivalent from 1 January 2023 (as a result of a one year delay), 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. In December 2020, the Bank of England published a discussion paper regarding its approach to setting MREL as a first stage of its MREL review and indicated that the review will complete in 2021 (not 2020 as initially planned). In such discussion paper, the Bank of England stated that it is considering whether the duration of the minimum transitional period (currently at least 36 months) to meet higher MREL requirements is sufficient for institutions that are not systemically important.

Although, as at the date of this Prospectus, the Issuer 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 Group could be subject to such higher MREL requirements in the future. Therefore, it is currently difficult to predict the full effect a higher MREL requirement could have on the Group. However, if the Group was subject to such an MREL requirement in the future, it is possible that the Issuer and/or other members of the Group would need to issue MREL eligible liabilities in order to meet such MREL requirements and/or alter the quantity and type of internal capital and funding arrangements within the Group. During periods of market dislocation, or when there is significant competition for the type of funding that the Group needs, a requirement to meet MREL targets may prove more difficult and/or costly. More generally, should the Group be subject to such MREL requirements, this could increase the Group's costs and may lead to asset sales and/or other balance sheet reductions. Consequently, the imposition of such an MREL requirement on the Group could adversely impact the results of operations, financial condition and prospects of the Group. See also "*Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*".

Consumer credit

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 Consumer Credit Act 1974 and its related secondary legislation (the "**CCA**") was transferred from the Office of Fair Trading (the "**OFT**") to the FCA in April 2014. Certain secondary legislation made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains. The FCA has greater powers of enforcement than the OFT had and 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.

The Group's business is also affected by, and subject to, the Consumer Rights Act 2015, under which the Group is required to ensure that its terms with relevant customers are fair according to the Consumer Rights Act 2015 and a breach of these requirements could mean that the unfair terms in question are not binding or enforceable. This in turn may affect the Group's ability to recover monies owed under such agreements.

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-authorized firms. Recent initiatives from the FCA and the PRA include the introduction of a mobilisation phase for new firms wanting to enter the banking sector, intended to make entrance into the market easier and less costly and the publication in October 2018 of the FCA's approach to competition framework. In addition, the FCA has assumed concurrent powers with the Competition and Markets Authority (the "**CMA**") to enforce competition rules in the UK insofar as they relate to the provision of

financial services and participation in payment systems. The FCA published the outcome of its Mortgage Market Study in March 2019 and as a result of its findings recently 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 also published an interim findings report on the insurance markets in October 2019, discussing a range of potential remedies to address the problematic pricing practices identified in the report. Following a further market study into general insurance pricing practices, the FCA published a consultation paper (CP 20/19) in September 2020. The consultation proposes 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. The remedy will be accompanied by enhanced product governance rules and will work alongside additional measures focused on increasing transparency and competition in general insurance, as well as addressing barriers to switching. The FCA expects to publish a Policy Statement in the second quarter of 2021 setting out the final rules. The Group may therefore face increasing regulatory scrutiny and competition impact which may affect the Group's ability to generate revenues and achieve the aims of its strategy. The Group may also face increased compliance costs if regulatory requirements relating to transparency, product disclosure or other conduct matters change.

In February 2021, the FCA published guidance (FG21/1) 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. Pursuant to the guidance, firms should be able to demonstrate how their culture, policies and processes ensure the fair treatment of all consumers, including those who are vulnerable. This may result in increased costs for the Group in making changes to comply with the guidance.

Resilience

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 their 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 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.

Due to Covid-19 the consultation period for proposed PRA and FCA operational resilience requirements was extended to 1 October 2020, with firms not expected to meet any final requirements before the end of 2021. The FCA has also requested that firms comply with the EBA Guidelines on information communication technology and security risk, particularly focusing on business continuity. The Group has reviewed the guidelines and confirmed its proportionate adherence to the requirements but will need to continue to review changes in process to ensure compliance with new regulation in this area.

Further regulatory requirements in respect of the Group's resilience to external events may increase costs for the Group and failure to adequately prepare for external events could have a material adverse effect on the Group's financial condition and results of operations.

The Group is exposed to risk resulting from the introduction of GDPR

The European Commission's General Data Protection Regulation ("**GDPR**") came into force on 25 May 2018 and provide 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 4 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). Consumers will also be able to request deletion of all personal data held by the data controller and third party recipients. This will significantly increase 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. Such regulatory burden may cause an increase in operating costs for the Group and potential sanctions could have a material adverse effect on its results, operations and financial position.

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 Financial Services Compensation Scheme ("FSCS") established in the UK 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 PLC's ("**Paragon Bank**") 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.

The EU Directive on deposit guarantee schemes (the "**DGSD**") was implemented in the UK through the Deposit Protection Part of the PRA Rulebook (the "**DPRs**"), which generally apply from 2015. In accordance with the DGSD, the UK is to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes regulated by it reach a minimum target level of 0.8 per cent. of the covered deposits of credit institutions. The DPRs require the scheme to be funded through regular contributions before the event (ex-ante) to the deposit guarantee schemes (the UK has previously operated an ex-post financing where fees are required after a payment to depositors has occurred). In case of insufficient ex-ante funds, the deposit guarantee scheme will collect immediately after the event (ex-post) contributions from the banking sector and, as a last resort, it will have access to alternative funding arrangements such as loans from public or private third parties. The UK requirements implementing DGSD provide, among other things, that the ex-ante contributions are met by funds already collected under the UK bank levy (with the ability, in the case of insufficient funds, to collect immediate ex-post contributions) and changes to the FSCS including the introduction of temporary high balance deposit protection, up to £1 million, for up to twelve months (protection temporarily extended from six to twelve months in response to the impact of Covid-19) from when the amount was deposited for certain limited types of deposits and changes to the types of depositors that are eligible for compensation. In addition, the DPRs permit management expenses levies and legacy cost levies to be imposed on deposit guarantee scheme members. It is possible, as a result of the DGSD as implemented in the UK, that future FSCS levies on the Group may differ from those it has incurred historically, and that such reforms could result in the Group incurring additional costs and liabilities, which may adversely affect the business, financial conditions and/or results of operations of the Group.

Moreover, there can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by us. 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.

Market Risks

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 net interest margin and profits is the difference between the rate at which it borrows and the rate at which it lends.

A substantial and sustained increase in the cost of funds available to finance assets is likely to result in the Group seeking to preserve its net 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 assets, for example with respect to LIBOR or the Sterling Overnight Index Average ("**SONIA**"). As a result, its net interest margin may be adversely affected during such periods where the rates do not match.

The Group seeks to manage and control the potential impact of changes to, and mismatches in, interest rates, however, if the Group is unable to or fails to manage or control these effectively, there could be an adverse impact on the Group's net interest margin and/or profits which could affect its ability to fulfil obligations under the Notes.

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

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

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

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

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

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

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

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

The Group raises a portion of its funding using special purpose vehicles where assets are sold or transferred into an entity which provides security over such assets against the issue of mortgage or asset backed securitisations or warehouse or secured SPVs. Certain of Paragon Bank's subsidiaries have provided credit

enhancement in respect of the Group's SPVs. This credit enhancement often takes the form of a subordinated loan (in loan or note form) advanced to a new or existing SPV. Moreover, Paragon Bank receives income from its SPVs and also income from the activities of Paragon Finance PLC ("**PFPLC**"), Paragon Bank, Paragon Mortgages (2010) Limited ("**PML2010**") and Mortgage Trust Services PLC ("**MTS**") in their capacity as administrator in respect of many of the SPVs, as well as other fee income received by certain subsidiaries of Paragon Bank in respect of services performed in a number of other capacities in relation to the SPVs. Recourse of creditors under each SPV, including, where applicable, PFPLC, Paragon Bank, PML2010 and MTS as administrator, certain subsidiaries of Paragon Bank providing any other services in respect of that SPV, any subsidiaries of Paragon Bank which have provided subordinated loans in respect of a SPV, or any subsidiaries of Paragon Bank which may be entitled to any other form of income is limited to the assets secured in respect of that SPV and recoveries may only be made pursuant to the applicable order of priorities or payment. In the event that the assets of any SPV are insufficient to satisfy its obligations, the value of Paragon Bank's investments by way of subordinated loans and/or the amounts received by PFPLC, Paragon Bank, PML2010 and MTS as administrator and/or any members of the Group for any other services provided or other income due in respect of that SPV may be adversely affected, and this could have a material adverse effect on the Group's business, results of operations, profitability or financial condition.

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

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

The Group's borrowing costs and access to the debt capital markets may be affected by the Issuer's public credit ratings. Depending on the performance of the Issuer and the Group, the Issuer may be subject to the risk of rating downgrades in the sole judgement of the assigning rating agency. In certain circumstances, such a downgrade could result in a below investment grade rating for the Issuer. Any such downgrade in the Issuer's credit ratings, particularly below investment grade, may adversely affect the Group's ability to access capital, could result in more stringent covenants and higher interest rates under the terms of any new indebtedness and may also adversely affect the market 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.

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

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

RISKS RELATING TO THE NOTES

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

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

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

Under the Banking Act, substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the PRA, the FCA and HM Treasury, as appropriate as part of a special resolution regime (the "**SRR**"). These powers enable the relevant UK resolution authority to implement resolution measures with respect to entities ("**relevant entities**") such as Paragon Bank and/or the Issuer in circumstances in which the relevant UK resolution authority is satisfied that the resolution conditions are met.

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

The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify contractual arrangements in certain circumstances (which could include a variation of the terms of the notes), powers to 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.

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

The exercise of any resolution power or any suggestion of any such exercise could 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 Noteholders losing some or all of the value of their investment in the Notes.

If the Issuer becomes subject to modified insolvency proceedings, Noteholders may lose all or some of their investment in the Notes

As at the date of this Prospectus, the resolution strategy for the Issuer set by the Bank of England is modified insolvency under Part 2 of the Banking Act on the basis that the Group has fewer than 40,000 'transactional accounts' (being those with at least nine withdrawals over the previous three months) and a failure by 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, Noteholders may lose all or some of their investment in the Notes. See "*The Notes are subordinated to most of the Issuer's liabilities*" and "*The Issuer is a holding company and the Notes will be obligations exclusively of the Issuer*".

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

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

Although the Banking Act provides specific conditions to the exercise of any resolution powers, 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 Noteholders of its decision to exercise any resolution power. Therefore, Noteholders may not be able to anticipate a

potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer, the Group and the Notes.

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

A partial transfer of the Issuer's business may result in a deterioration of its creditworthiness.

If the Issuer were 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 meet its obligations in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Noteholders 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 Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

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

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

The Banking Act specifies the order in which the bail-in tool should be applied, reflecting the hierarchy of capital instruments under UK CRD and otherwise respecting the hierarchy of claims in an ordinary insolvency.

The exercise of the bail-in tool in respect of the Issuer and the Notes or any suggestion of any such exercise could materially adversely affect the rights of the Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes and could lead to Noteholders losing some or all of the value of their investment in such Notes. In addition, the bail-in tool contains an express safeguard (known as "no creditor worse off") with the aim that shareholders and creditors do not receive a less favourable treatment than they would have received in ordinary insolvency proceeding of the relevant entity. 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 Noteholders in the resolution and there can be no assurance that Noteholders would recover such compensation promptly.

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

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

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

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

See "*The Issuer is a holding company and the Notes will be obligations exclusively of the Issuer*" 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.

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

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

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

The Issuer is a holding company and the Notes will be obligations exclusively of the Issuer

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

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

Further, if one of the Issuer's subsidiaries were to be wound up, liquidated or dissolved, (i) the Noteholders would have no right to proceed against the assets of such subsidiary, and (ii) the Issuer would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the winding-up, liquidation or dissolution of that subsidiary in respect of its direct or indirect holding of ordinary shares in such subsidiary, if and to the extent that any surplus assets remain following payment in full of the claims of the creditors and preference shareholders (if any) of that subsidiary. Similarly, if any of the Issuer's subsidiaries were subject to resolution proceedings (i) the Noteholders would have no direct recourse against such subsidiary, and (ii) the Noteholders themselves may also be exposed to losses pursuant to the exercise by the relevant UK resolution authority of the resolution powers conferred by the SRR (as defined below) or the mandatory write-down and conversion power - see "*Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*".

The Issuer has absolute discretion as to how it makes its investments in or advances funds to its subsidiaries, including the proceeds of issuances of debt securities such as the Notes, and as to how it may structure existing investments and funding in the future. The ranking of the Issuer's claims in respect of such investments and funding in the event of the liquidation of a subsidiary, and their treatment in resolution, will depend in part on the form and structure of any such investments but will generally be subordinated to any depositors in the case of Paragon Bank. The purposes of such investments and funding may include, among other things, the provision of different amounts or types of capital or funding to particular

subsidiaries, including for the purposes of meeting regulatory requirements, such as capital adequacy requirements and MREL (if applicable) in respect of such subsidiaries, which in most cases will require the Issuer's claims to rank below those of ordinary unsecured creditors of the relevant subsidiary.

In addition, the terms of some loans or investments made or to be made by the Issuer in capital instruments and MREL instruments (if applicable) issued by its subsidiaries may contain contractual mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of such subsidiary, would result in a write-down of the claim or a change in the ranking and type of claim that the Issuer has in respect of such loan or investment. As of the date of this Prospectus none of the Issuer or its subsidiaries is required to meet an MREL requirement that is above its minimum regulatory capital requirements (Pillar 1 and Pillar 2A, excluding buffers). See "*Recent legislative and regulatory changes and future legislative and regulatory changes are imposing or could impose operational restrictions on the Group, require the Group to raise further capital, increase the Group's expenses and/or otherwise have a material adverse effect on its business, financial condition, results of operations and/or prospects*".

Such loans to and investments in the Issuer's subsidiaries may also be subject to the exercise of the mandatory write-down and conversion power or the bail-in tool by the relevant UK resolution authority or such subsidiaries of the Issuer may otherwise be subject to resolution proceedings. Any such actions could materially impair the Issuer's ability to receive payment from an affected subsidiary and could therefore affect its ability to make payments on the Notes.

No limitation on issuing senior or pari passu securities

The Notes do not contain any restriction on the amount of securities which the Issuer may issue, nor on the amount of any other obligations it may assume, which rank senior to, or *pari passu* with, the Notes. The issue of any such securities and/or the assumption of any such other obligations may reduce the amount recoverable by Noteholders on a winding up or administration of the Issuer.

Noteholders agree to be bound by the exercise of any Bail-in Power by the Resolution Authority

In recognition of the powers granted by law to the Resolution Authority, by its acquisition of Notes, each Noteholder acknowledges and accepts that the Amounts Due arising under the Notes may be subject to the exercise of any Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents and agrees to be bound by the effect of the exercise of Bail-in Power by the Resolution Authority which 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 into shares, other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Noteholders 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 and/or (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period. Each Noteholder further acknowledges, accepts, consents and agrees that to be bound by the variation of the terms of the Notes, if necessary, to give effect to, the exercise of any Bail-in Power by the Resolution Authority.

Accordingly, the Bail-in Power may be exercised in such a manner as to result in Noteholders 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 Bail-in Power without providing any advance notice to, or requiring the consent of, the Noteholders. In addition, under the Conditions, the exercise of the Bail-in Power by the Resolution Authority with respect to the Notes is not an event of default or a default for any purpose.

The Noteholders will have limited remedies

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

The sole remedy against the Issuer available for recovery of amounts owing in respect of any non-payment of any amount that has become due and payable under the Notes is, subject to certain conditions and to the

provisions set forth in Condition 8 (*Events of Default*), for the Trustee to institute proceedings in a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) for the winding-up of the Issuer and/or prove in its winding up and/or claim in its liquidation or administration.

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

There can be no assurance that the projects funded from an amount equal to the proceeds of the Notes will meet investor criteria and expectations regarding environmental impact and sustainability performance

A prospective investor should have regard to the information set out in "*Use of Proceeds*" and determine for itself the relevance of such information for the purpose of an investment in the Notes together with any other investigation it deems necessary.

No assurance is given by the Issuer or the Joint Lead Managers that such use of proceeds will satisfy any present or future investment criteria or guidelines with which an investor is required, or intends, to comply, in particular with regard to any direct or indirect environmental or sustainability impact of any project or uses, the subject of or related to, the Green Bond Framework. (as defined in "*Use of Proceeds*" below). In addition, the Green Bond Framework is subject to change in all respects at any time without notice.

While it is the intention of the Issuer to apply an amount equal to the proceeds of the Notes for Eligible Loans and to report on the use of proceeds or Eligible Loans as described in "*Use of Proceeds*", there is no contractual obligation to do so. There can be no assurance that any such Eligible Loans will be available or capable of being implemented in the manner anticipated and, accordingly, that the Issuer will be able to use an amount equal to the proceeds for such Eligible Loans as intended. In addition, there can be no assurance that Eligible Loans will be completed as expected or achieve the impacts or outcomes (environmental, social or otherwise) originally expected or anticipated. None of a failure by the Issuer to allocate an amount equal to the proceeds of the Notes or to report on the use of proceeds or Eligible Loans as anticipated or a failure of a third party to issue (or to withdraw) an opinion or certification in connection with the Notes or the failure of the Notes to meet investors' expectations or requirements regarding any "green", "sustainable", "social" or similar labels will constitute an event of default or breach of contract with respect to the Notes. Any such failure by the Issuer will not (i) give rise to any claim of a Noteholder against the Issuer, (ii) constitute an event of default under the Notes, (iii) lead to an obligation of the Issuer to redeem such Notes or be a relevant factor for the Issuer in determining whether or not to exercise any optional redemption rights in respect of any Notes or (iv) affect the qualification of such Notes as Tier 2 Capital.

Potential investors should be aware that the Notes are intended to qualify as Tier 2 Capital and should therefore also consider the relevant risk factors in relation to the subordinated nature of the Notes and the regulatory action to which the Issuer, the Group and/or the Notes could be subject set out in "*Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*", "*The Notes are subordinated to most of the Issuer's liabilities*", "*The Issuer is a holding company and the Notes will be obligations exclusively of the Issuer*", "*Noteholders agree to be bound by the exercise of any Bail-in Power by the Resolution Authority*" and "*The Noteholders will have limited remedies*" above.

There is currently no clearly-defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes "green" or "sustainable" or an equivalently labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label. Accordingly, no assurance can be given that Eligible Loans (as defined in "*Use of Proceeds*") will meet investor expectations or requirements regarding such "green", "sustainable", "social" or similar labels (including Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the so called "**EU Taxonomy**") or Regulation (EU) 2020/852 as it forms part of domestic law of the UK by virtue of the EUWA) or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Loans. Each prospective investor should have regard to the relevant information contained in this

Prospectus and seek advice from their independent financial adviser or other professional adviser regarding its purchase of the Notes before deciding to invest.

No representation or assurance is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by us) that may be made available in connection with the Notes or in relation to the ability of any Eligible Projects to fulfil any environmental, sustainability and/or other criteria. Any such opinion or certification may not address risks that may affect the value of the Notes or the Eligible Loans. For the avoidance of doubt, any such opinion or certification is neither incorporated in nor forms part of this Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer, the Joint Lead Managers or any other person to buy, sell or hold the Notes and is current only as of the date it was issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein.

No representation or assurance is given by the Issuer, the Joint Lead Managers or any other person that the admission to trading of the Notes on the Sustainable Bond Market of the London Stock Exchange satisfies any present or future investment criteria or guidelines with which such investor is required, or intends, to comply. No representation or assurance is given or made by the Issuer, the Joint Lead Managers or any other person that the admission to trading of the Notes on the Sustainable Bond Market of the London Stock Exchange will be obtained in respect of the Notes or that any such listing or admission to trading will be maintained during the life of the Notes.

A failure of the Notes to meet investor expectations or requirements as to their "green", "sustainable", "social" or equivalent characteristics including the failure to apply an amount equal to the proceeds for Eligible Loans, the failure to provide, or the withdrawal of, a third party opinion or certification, the Notes ceasing to be listed or admitted to trading on the Sustainable Bond Market of the London Stock Exchange or the failure by the Issuer to report on the use of proceeds or Eligible Loans as anticipated, may have a material adverse effect on the value of the Notes and/or may have consequences for certain investors with portfolio mandates to invest in green assets (which consequences may include the need to sell the Notes as a result of the Notes not falling within the investor's investment criteria or mandate).

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

The Notes bear interest at the Initial Interest Rate from (and including) the Issue Date to (but excluding) the Reset Date. On the Reset Date, the interest rate will be reset to the sum of the applicable Reference Bond Rate (as determined by the Agent Bank on the Reset Determination Date) and the margin of 3.956 per cent. The Reset Interest Rate could be less than the Initial Interest Rate which would result in the amount of any interest payments under the Notes being lower than the interest payments prior to the Reset Date and so could affect the market value of an investment in the Notes.

The Notes may be redeemed prior to maturity

Subject to Supervisory Permission and compliance with the Regulatory Preconditions, the Issuer may, at its option, redeem all (but not some only) of the Notes (i) at any time upon the occurrence of a Tax Event or a Regulatory Event or (ii) on any day (from and including) 25 June 2026 to (and including) the Reset Date, at their principal amount plus unpaid interest accrued to (but excluding) the redemption date.

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

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

Furthermore, Noteholders will have no right to request the redemption of the Notes and should not invest in the Notes in the expectation that the Issuer would exercise its option to redeem the Notes. Any decision by the Issuer as to whether it will exercise its option to redeem the Notes will be taken at the absolute discretion of the Issuer with regard to factors such as, but not limited to, the economic impact of exercising such option to redeem the Notes, any tax consequences, the regulatory capital requirements and the

prevailing market conditions. Noteholders should be aware that they may be required to bear the financial risks of an investment in the Notes until maturity.

The Notes may be substituted or the terms of the Notes may be varied following a Tax Event or a Regulatory Event

Subject to Supervisory Permission, upon the occurrence of a Tax Event or a Regulatory Event, the Issuer may at any time, in its sole discretion and without the need for any consent of the Noteholders, substitute all (but not some only) of the Notes for, or vary the terms of such Series so that they remain or become, Compliant Notes.

While Compliant Notes are required to have terms which are not materially less favourable to investors than the terms of the Notes (as reasonably determined by the Issuer), no assurance can be given that any such substitution or variation will not adversely affect any particular Noteholder. In particular, the tax or other consequences of holding such Compliant Notes could be different for any particular Noteholder from the tax and other consequences for such Noteholder of holding the Notes prior to such substitution or variation.

Waiver of set-off

Noteholders waive any right of set-off, compensation or retention in relation to the Notes insofar as permitted by applicable law. Therefore, Noteholders will not be entitled (subject to applicable law) to set-off the Issuer's obligations under such Notes against obligations owed by them to the Issuer.

There is no active trading market for the Notes

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

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

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

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

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

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination plus an integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £100,000 (or its equivalent) that are not integral multiples of £100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may

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

Credit Rating

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

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

Furthermore, 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 the rating for regulatory purposes. Similarly, and 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. In both cases, any such change could cause the Notes to be subject to different regulatory treatment. This may result in such UK or European regulated investors, as applicable, selling the Notes, which may impact the value of the Notes and any secondary market.

Changes in law may adversely affect the rights of Holders

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

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

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny which may adversely affect the Group's business, financial performance, capital and risk management strategies. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore the Issuer's, performance and financial condition. It is not 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 "*Regulatory action in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Notes*".

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

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

The Conditions also provide that, subject to prior notice or consent of the Competent Authority (if then required by the Regulatory Capital Requirements) the Trustee may, without the consent of the Noteholders, agree to (i) any modification of, or waiver or authorisation of any breach or proposed breach of, any of the Conditions (other than in respect of a Reserved Matter) which, in each case, in the opinion of the Trustee is not materially prejudicial to the interest of the Noteholders or, in the case of a modification, in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error; or (ii) the substitution of any Subsidiary of the Issuer as principal debtor under any Notes in place of the Issuer. As a result of the above, actions may be taken with respect to the Notes with which some Holders may not agree.

In addition, in the case of any substitution of the Issuer, the Trustee need not have any regard to the consequences of such substitution for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Trustee or the Issuer any indemnification or other payment in respect of any tax or other consequences arising as a result of or from such substitution. Furthermore, the tax or other consequences of holding Notes following a substitution could be different for any particular Noteholder from the tax and other consequences for such Noteholder of holding the Notes prior to such substitution.

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

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

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

TERMS AND CONDITIONS OF THE NOTES

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

The £150,000,000 4.375 per cent. Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2031 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Paragon Banking Group PLC (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 25 March 2021 (the "**Issue Date**") (as amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 25 March 2021 (as amended and/or restated and/or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, Citibank, N.A., London Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), Citibank, N.A., London Branch as agent bank (the "**Agent Bank**", which expression includes any successor agent bank appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents, the Paying Agents and the Agent Bank and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Principal Paying Agent, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below. References to "£", "**sterling**" and "**pounds sterling**" are to the lawful currency for the time being of the United Kingdom.

1. **Form and Denomination**

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

2. **Register, Title and Transfers**

- (a) *Register:* The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers:* Subject to Conditions 2(f) (*Closed periods*) and 2(g) (*Regulations concerning transfers and registration*) below, and to the conditions set forth in the Agency Agreement,

a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

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

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

- (a) *Status:* The Notes constitute direct, unsecured and, in accordance with Condition 3(b) (*Subordination*) subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves.
- (b) *Subordination:* In the event of a winding up or administration of the Issuer, the claims of Noteholders and the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) against the Issuer in respect of or arising under the Notes (including any damages awarded for breach of any obligations in respect of the Notes) will be subordinated in the manner provided herein and in the Trust Deed to the claims of all Senior Creditors (as defined below) but shall rank:
 - (i) at least *pari passu* with all claims of holders of all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Tier 2

Capital and all obligations which rank, or are expressed to rank, *pari passu* therewith ("**Parity Securities**"); and

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

In these Conditions:

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

"**EU CRD**" means:

- (i) 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; and
- (ii) 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, as amended before IP completion day;

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

"**IP completion day**" has the meaning given in the European Union (Withdrawal Agreement) Act 2020;

"**Order**" means the Banks and Building Societies (Priorities on Insolvency) Order 2018, as may be amended or replaced from time to time;

"**Regulatory Capital Requirements**" means, at any time, any requirements contained in the laws, regulations, requirements, standards, guidelines and policies of the Competent Authority, any other national and/or European authority, then in effect in the United Kingdom (or in such other jurisdiction in which the Issuer may be incorporated or domiciled) relating to capital adequacy and/or minimum requirement for own funds and eligible liabilities and/or loss absorbing capacity for credit institutions and applicable to the Issuer and/or the Group including UK CRD;

"**secondary non-preferential debts**" shall have the meaning given to it in the Order and any other law or regulation applicable to the Issuer which is amended by the Order, as each may be amended or replaced from time to time;

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

whose claims are in respect of Parity Securities or Junior Securities; or (iii) who are creditors in respect of any secondary non-preferential debts;

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

"**UK CRD**" means the legislative package consisting of:

- (i) the UK CRD Regulation;
- (ii) the law of the UK or any part of it (as amended or replaced in accordance with domestic law from time to time), which immediately before IP completion day 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, such Directive as amended before IP completion day; and
- (iii) direct EU legislation (as defined in the Withdrawal Act), which immediately before IP completion day implemented EU CRD as it forms part of domestic law of the United Kingdom by virtue of the Withdrawal Act and as the same may be amended or replaced in accordance with domestic law from time to time;

"**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 investments firms, as amended before IP completion day, as it forms part of domestic law of the United Kingdom by virtue of the Withdrawal Act and as the same may be further amended or replaced in accordance with domestic law from time to time; and

"**Withdrawal Act**" means the European Union (Withdrawal) Act 2018.

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

4. **Interest**

- (a) *Interest and Interest Payment Dates*

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the applicable Interest Rate in accordance with the provisions of this Condition 4 (*Interest*). Interest will be payable semi-annually in arrear on 25 March and 25 September of each year from (and including) 25 September 2021 up to (and including) the Maturity Date (as defined below) (each an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

- (b) *Interest Accrual*

Each Note will cease to bear interest from and including its due date for redemption unless, upon due surrender of the relevant Note Certificate, payment of the principal due in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which case it will continue to bear interest at such rate (both before and

after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Registrar or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Calculation of interest*

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

The amount of interest payable on each Interest Payment Date up to (and including) the Reset Date will be £21.875 per Calculation Amount.

For the purposes of these Conditions:

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

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

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

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

Interest will accrue:

- (i) at 4.375 per cent. per annum (the **"Initial Interest Rate"**) from (and including) the Issue Date to (but excluding) 25 September 2026 (the **"Reset Date"**); and
- (ii) from (and including) the Reset Date to (but excluding) the Maturity Date (the **"Reset Period"**) at the Reset Interest Rate,

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

The **"Reset Interest Rate"** shall be the sum of the Reference Bond Rate (as determined by the Agent Bank on the date (the **"Reset Determination Date"**) falling two Business Days prior to the Reset Date) and the initial margin of 3.956 per cent., rounding the resultant figure to three decimal places (with 0.0005 being rounded down) where:

"Reference Bond Rate" means, with respect to the Reset Determination Date, the gross redemption yield in respect of the Reset Reference Bond expressed as a percentage and calculated by the Agent Bank in accordance with generally accepted market practice, as determined by the Issuer following consultation with an investment bank or independent adviser of appropriate expertise and recognised standing and agreed to by the Agent Bank, at such time on a semi-annual compounding basis (rounded up (if necessary) to three decimal places), assuming a price for the Reset Reference Bond (expressed as a percentage of its principal amount) equal to the Reset Reference Bond Price for the Reset Determination Date;

"Reference Government Bond Dealer" means each of three banks selected by the Issuer (following, where practicable, consultation with an investment bank or financial institution of international repute determined to be appropriate by the Issuer), or the

affiliates of such banks, which are (i) primary government securities dealers, and their respective successors, or (ii) market makers in pricing corporate bond issues;

"Reference Government Bond Dealer Quotations" means, with respect to each Reference Government Bond Dealer and the Reset Determination Date, the arithmetic average (as determined by the Agent Bank), of the bid and offered prices for the Reset Reference Bond (expressed in each case as a percentage of its principal amount) as at approximately 11.00 a.m. (London time) on the Reset Determination Date on a dealing basis for settlement that is customarily used at such time and quoted, at the request of the Issuer, in writing to the Agent Bank by such Reference Government Bond Dealer;

"Reset Reference Bond" means 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 the 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 the Reset Period; and

"Reset Reference Bond Price" means:

- (i) the arithmetic average of the bid and offered prices for the Reset Reference Bond (expressed as a percentage of its principal amount) which appears on Bloomberg PXUK (or any successor or replacement page or any other source as specified by the Issuer) as at approximately 11.00 a.m. (London time) on the Reset Determination Date;
- (ii) if such bid and offered prices for the Reset Reference Bond do not appear on that page or source, the Reset Reference Bond Price shall be determined based on the Reference Government Bond Dealer Quotations requested by the Issuer for the Reset Determination Date, as follows:
 - (A) if fewer than three but more than one such Reference Government Bond Dealer Quotations are received, the arithmetic average (as determined by the Agent Bank) of all such quotations; or
 - (B) if only one Reference Government Bond Dealer Quotation is received, such quotation; or
 - (C) if no Reference Government Bond Dealer Quotations are received, 0.419 per cent. per annum.

(e) *Determination and Notification of the Reset Interest Rate*

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

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

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

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

5. **Redemption, Purchase, Substitution and Variation**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 25 September 2031 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).
- (b) *Redemption at the option of the Issuer*: The Issuer may, in its sole discretion but subject to Condition 5(g) (*Conditions to Redemption*) and having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), the Trustee and the Agents (which notice shall be irrevocable), elect to redeem the Notes, in whole but not in part, on any day (from and including) 25 June 2026 to (and including) the Reset Date at an amount equal to their principal amount together with unpaid interest accrued to (but excluding) the date fixed for redemption.
- (c) *Redemption for tax reasons*: Subject to Condition 5(g) (*Conditions to Redemption*), the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), the Trustee and the Agents (which notice shall be irrevocable) at an amount equal to their principal amount, together with unpaid interest accrued to (but excluding) the date fixed for redemption, if as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which the Relevant Jurisdiction is a party, or any change in the official application of such laws or regulations which change or amendment becomes effective on or after the Issue Date, including a decision of any court or tribunal which becomes effective on or after the Issue Date:
- (i) the Issuer will or would on the next Interest Payment Date be required to pay, Additional Amounts as provided or referred to in Condition 7 (*Taxation*); or
 - (ii) the Issuer is 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 Issue Date or any similar system or systems having like effect as may from time to time exist); or
 - (iv) the Issuer would be required to bring into account any amount of income, profit or gain or other tax credit or taxable item for tax purposes, or any other liability to tax would arise, in respect of the write-down or conversion of the Notes into shares, or both as a result of the exercise of any regulatory powers (including, under the Banking Act 2009, as amended); or
 - (v) the Issuer is or would be prevented from treating the Notes as loan relationships for United Kingdom tax purposes; or

- (vi) the Issuer will have to treat the Notes or any part thereof as a derivative or an embedded derivative for United Kingdom tax purposes,

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

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

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

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

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

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

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

In these Conditions:

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

"**Issue Date**" means 25 March 2021.

"Regulatory Preconditions" means, in relation to any redemption of the Notes under Conditions 5(b) (*Redemption at the option of the Issuer*), 5(c) (*Redemption for tax reasons*) or 5(d) (*Regulatory Event Redemption*), to the extent required by the prevailing Regulatory Capital Requirements:

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

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

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

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

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

- (h) *Substitution and Variation*: Subject to Supervisory Permission, upon the occurrence of a Tax Event or a Regulatory Event, the Issuer may at any time, in its sole discretion and without any requirement for the consent or approval of the Noteholders, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Compliant Notes.

Any substitution or variation in accordance with this Condition 5(h) (*Substitution and Variation*) is subject to the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*), the Trustee and the Agents (which notice shall be irrevocable and shall specify the date for substitution or, as the case may be, variation of the Notes). Upon the expiry of the notice required by this Condition 5(h) (*Substitution and Variation*), the Issuer shall either substitute or vary the terms of the Notes in accordance with this Condition 5(h) (*Substitution and Variation*) and, subject as set out below, the Trustee shall be obliged to agree to such substitution or variation.

Prior to the publication of any notice of substitution or variation pursuant to this Condition 5(h) (*Substitution and Variation*), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Tax Event or Regulatory Event, as the case may be, giving rise to the right to substitute or vary has occurred and is continuing and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the same and it shall be conclusive and binding on the Noteholders and the Trustee.

The Trustee shall concur in the substitution of the Notes for Compliant Notes, or the variation of the terms of the Notes so that they remain or become Compliant Notes, as the case may be, provided that the Trustee shall not be obliged to concur in any such substitution or variation if the terms of the proposed Compliant Notes or the concurring in such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured and/or pre-funded to its satisfaction. If, notwithstanding the above, the Trustee does not concur in such substitution or variation provided above, the Issuer may redeem the Notes as provided in Conditions 5(c) (*Redemption for tax reasons*) or 5(d) (*Regulatory Event Redemption*), as applicable.

"**Compliant Notes**" means, in relation to the Notes, securities issued directly by the Issuer:

- (i) that 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 investment bank or independent adviser of appropriate expertise and recognised standing (which in either case is independent of the Issuer)), and provided that a certification to such effect of two Authorised Signatories of the Issuer shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without enquiry or liability to any person and without any obligation to verify or investigate the accuracy thereof) prior to the issue or, as appropriate, variation of the relevant securities);
- (ii) that (A) contain terms that comply with the then prevailing Regulatory Capital Requirements in relation to Tier 2 Capital, (B) have a ranking at least equal to the Notes, (C) include terms which provide for the same applicable Interest Rate, Interest Payment Dates, Maturity Date and amounts payable on redemption as apply from time to time to the Notes immediately prior to such substitution or variation, (D) shall preserve any existing rights under these Conditions to any accrued interest and/or principal which have not been satisfied and (E) do not contain terms providing for the mandatory or voluntary deferral of payments of principal and/or interest;
- (iii) that are listed on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007 (as the same may be amended, supplemented or replaced from time to time)) or admitted to trading on a multilateral trading facility operated by a regulated recognised stock exchange (within the meaning of section 987 of the Income Tax Act 2007 (as the same may be amended, supplemented or replaced from time to time)) and/or are admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, in each case to the extent, and on the same such other listing authority, stock exchange and/or quotation system, that the Notes were so listed or admitted to listing, trading, and/or quotation (as the case may be) immediately prior to such substitution or variation; and
- (iv) where the Notes have a published solicited rating from one or more rating agencies immediately prior to their substitution or variation, to which each such rating agency has assigned, or informed the Issuer by an announcement or otherwise of its intention to assign, an equal or higher published solicited rating.

6. Payments

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

7. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer shall pay such additional amounts in respect of the payment of any interest on the Notes (but not in respect of the payment of any principal) ("**Additional Amounts**") as will result in receipt by the Noteholders

after such withholding or deduction of such amounts in respect of payments of interest on the Notes as would have been receivable by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

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

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Registrar or another Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

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

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

8. **Events of Default**

- (a) If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or secured and/or pre-funded to its satisfaction), without further notice:
 - (i) *Non-payment*: in the event that any principal or interest on the Notes has not been paid within 7 days (in the case of principal) and within 14 days (in the case of interest) from the due date for payment, institute proceedings in a court of competent jurisdiction in England (or such other jurisdiction in which the Issuer is organised) (but not elsewhere) for the winding-up of the Issuer and/or prove in its winding up and/or claim in its liquidation or administration, **provided that** the Issuer shall not be in default if it satisfies the Trustee during the 7 or 14 day period (as applicable) that such sums were not paid in order to comply with any mandatory law, regulation or order of any court of competent jurisdiction. Where there is doubt as to the validity or applicability of any such law, regulation or order, the Issuer will not be in default if it acts on the advice given to it during such period by independent legal advisers acceptable to the Trustee; or

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

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

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

No Holder of any Notes shall be entitled to proceed directly against the Issuer or institute any of the proceedings referred to in this Condition 8 (*Events of Default*) or to prove in the winding up of the Issuer, except that, if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so or, being able to prove in such winding up, fails or is unable to do so, in each case within 90 days, and in each such case such failure or inability shall be continuing, then any such Holder may itself institute such proceedings and/or prove in such winding up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of its Notes.

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

Neither a reduction or cancellation, in part or in full, of the Amounts Due (as defined in Condition 17 (*Agreement and Acknowledgement with Respect to the Exercise of Bail-in Power*)), the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the Bail-in Power by the Resolution Authority (each as defined in Condition 17 (*Agreement and Acknowledgement with Respect to the Exercise of Bail-in Power*)) with respect to the Issuer, nor the exercise of the Bail-in Power by the Resolution Authority with respect to the Notes will be an event of default or default for any purpose.

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

definition is commenced in respect of the Issuer, including any bank insolvency procedure or bank administration procedure pursuant to the Banking Act 2009, as amended.

9. **Prescription**

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

10. **Replacement of Note Certificates**

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

11. **Trustee and Agents**

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

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

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

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

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

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

- (a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings (including by way of audio or video conference call) of Noteholders to consider matters affecting their interests relating to the Notes, including the modification or abrogation by Extraordinary Resolution of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution, subject to Condition 12(d) (*Competent Authority notice or consent*). Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on

any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to modify the provisions of Condition 3 (*Status and Subordination of the Notes*) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than two thirds or, at any adjourned meeting, not less than one third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and whether or not they voted on the resolution.

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

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

In addition, the Trustee shall be obliged to concur with the Issuer and use its reasonable endeavours to effect such modifications to these Conditions or the Trust Deed as may be required in order to give effect to Condition 5(h) (*Substitution and Variation*) without the consent of Noteholders.

Any such authorisation, waiver or modification shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter.

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

In connection with any substitution of the Issuer pursuant to this Condition 12(c) (*Substitution*) or any substitution of the Notes pursuant to Condition 5(h) (*Substitution and Variation*), the Trustee need not have any regard to the consequences of any such substitution for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Trustee or the Issuer any indemnification or other payment in respect of any tax or other consequences arising as a result of or from such substitution.

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

- (d) *Competent Authority notice or consent:* The provisions relating to the Notes shall only be capable of modification or waiver and the Issuer may only be substituted in accordance with Condition 12(c) (*Substitution*) above, if the Issuer has notified the Competent Authority of such modification, waiver or substitution and/or obtained the permission of the Competent Authority, (if such notice and/or consent is then required by the Regulatory Capital Requirements).
- (e) *Trustee to have regard to interests of Noteholders as a class:* In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13. **Rights of the Trustee**

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

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them and/or the issue price thereof) so that the same shall be consolidated and form a single series with the Notes. Any further securities which are to form a single series with the Notes constituted by the Trust Deed or any supplemental deed shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

15. **Notices**

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

16. **Governing Law and Jurisdiction**

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

17. **Agreement and Acknowledgement with Respect to the Exercise of Bail-in Power**

(a) *Recognition of Bail-in*

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

- (i) the effect of the exercise of 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 on the Notes into shares, other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Noteholder 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;
 - (D) the amendment or alteration of the maturity of the Notes or 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;

(ii) the variation of the terms of the Notes, if necessary, to give effect to the exercise of Bail-in Power by the Resolution Authority.

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

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

(c) *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 Bail-in Power by the Resolution Authority with respect to the Issuer, nor the exercise of the Bail-in Power by the Resolution Authority with respect to the Notes will be an event of default or default for any purpose.

(d) *Notice to Noteholders*

Upon the exercise of the Bail-in Power by the Resolution Authority with respect to the Notes, the Issuer shall notify the Trustee and the Principal Paying Agent in writing of such exercise and give notice of the same to Noteholders in accordance with Condition 15 (*Notices*). Any delay or failure by the Issuer in delivering any notice referred to in this Condition 17(d) shall not affect the validity and enforceability of the Bail-in Power.

For the purposes of this Condition 17:

"Amounts Due" means the principal amount of, together with any accrued but unpaid interest, due 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 Bail-in Power by the Resolution Authority;

"Bail-In Legislation" means Part I of the Banking Act 2009, as amended and any other law or regulation applicable in the United Kingdom relating to the resolution of unsound or failing banks, investment firms or other financial institutions or their affiliates (otherwise than through liquidation, administration or other insolvency proceedings);

"Bail-in Power" means the powers under the Bail-In Legislation to cancel, transfer or dilute shares issued by a person that is a bank or investment firm or affiliate of a bank or investment firm, to cancel, reduce, transfer, modify or change the form of a liability of such a person or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability; and

"Resolution Authority" means the Bank of England or any successor or replacement thereto or such other authority in the United Kingdom with the ability to exercise the Bail-in Power.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

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

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

Exchange for Individual Note Certificates

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

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

Accountholder

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

Transfers

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

Payments

Payments due in respect of Notes represented by the Global Note Certificate which, according to the Conditions, require surrender or endorsement of a Note Certificate, shall be made to or to the order of the registered holder and such payment will discharge the obligations of the Issuer in respect of the relevant

payment under the Notes. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to or to the order of the registered holder.

Notices

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

Payment Business Day

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

Record Date

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

Calculation of interest

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

Clearing Systems

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

Electronic Consent and Written Resolution

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

- (a) where the terms of the resolution proposed by the Issuer or the Trustee (as the case may be) have been notified to the Noteholders through the Clearing Systems and/or an Alternative Clearing System as provided in the Trust Deed, each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing Systems and/or an Alternative Clearing System, as the case may be, to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the Notes outstanding by close of business on the relevant time and date for the blocking of their accounts in the relevant Clearing System and/or Alternative Clearing System (an "**Electronic Consent**"). Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Neither the Issuer nor the Trustee shall be liable or responsible to anyone for such reliance; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall

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

USE OF PROCEEDS

The proceeds of the issue of the Notes will be £150,000,000. The fees and expenses in connection with the issue of the Notes will be paid separately by the Issuer and are expected to amount to approximately £750,000.

An amount equal to the proceeds will be down streamed to Paragon Bank and loans in such amount will be allocated in accordance with its Green Bond Framework for the financing and/or re-financing of mortgages in respect of new or existing residential buildings belonging to the top 15% of low carbon buildings in the region, which includes buildings certified, or to be certified, with an Energy Performance Certificate (EPC) label "A" or "B" in England and Wales ("**Eligible Loans**"), in accordance with the Green Bond Framework (as defined below). Pending the full allocation of an amount equal to the proceeds, or in case of insufficient Eligible Loans, the Group will hold and/or invest, at its own discretion, the balance of proceeds not yet allocated to Eligible Loans in its liquidity portfolio. The unallocated proceeds will be held and/or invested in cash or other short term liquid instruments in accordance with the Group's liquidity policy until additional Eligible Loans become available.

The Issuer's Green Bond Framework (the "**Green Bond Framework**") dated March 2021 (which has been confirmed in the Second Party Opinion as complying with the 2018 International Capital Market Association Green Bond Principles) is available at <https://www.paragonbankinggroup.co.uk/green-bond>.

The Second Party Opinion from Sustainalytics B.V. dated 4 March 2021 (the "**Second Party Opinion**") is available at <https://www.paragonbankinggroup.co.uk/green-bond>.

Further information on the allocation and impact of the Eligible Loans (as further described in the Green Bond Framework) is expected to be made available by the Issuer on its investor relations website at <https://www.paragonbankinggroup.co.uk/green-bond>.

For the avoidance of doubt, neither the Green Bond Framework nor the Second Party Opinion are, nor shall either of them be deemed to be, incorporated in, and/or form part of, this Prospectus.

DESCRIPTION OF THE ISSUER

Incorporation and status

Paragon Banking Group PLC ("**Paragon**" or the "**Issuer**") was incorporated in England (registered number 02336032) on 17 January 1989 as a public limited company under the Companies Act 1985. Paragon's name on incorporation was Giltfind Public Limited Company. On 28 February 1989, following a reorganisation of the group structure, it changed its name to National Home Loans Holdings PLC. On 3 March 1997, it changed its name to The Paragon Group of Companies PLC, and on 21 September 2017, following a reorganisation into a banking group, it changed its name to its current name of Paragon Banking Group PLC. Paragon's registered office and head office is 51 Homer Road, Solihull, West Midlands B91 3QJ, United Kingdom.

Paragon's ordinary shares are listed on the official list of the FCA and traded on the Main Market of the London Stock Exchange. Paragon is currently a FTSE 250 company, having first become a FTSE 250 company in 2002. Paragon operates through its subsidiary businesses and is the ultimate holding company of the Group. As such, Paragon's profitability is dependent upon its subsidiaries, principally Paragon Bank, through which the majority of the Group's business is operated.

As at the date of this Prospectus, Paragon has a long term issuer default rating of BBB by Fitch and a short term issuer default rating of F3. This is classified by Fitch as an investment grade rating.

History and overview

The Group is a specialist banking group, and it offers a range of savings products and provides finance for landlords, small businesses and property developers in the UK.

Since establishing Paragon Bank, a Group subsidiary company, authorised to take retail deposits by the PRA on 8 May 2014, the Group has funded its new lending principally through an online personal savings operation. The Group has expanded its operations in buy-to-let mortgages and entered a wide range of commercial lending markets, including small and medium sized enterprise ("**SME**") lending and development finance. It also services a range of consumer loan portfolios through its subsidiary, Idem Capital.

The Group began as a specialist residential mortgage lender in 1985. A pioneer in buy-to-let lending, the Group launched its first mortgage products for UK landlords in 1995 into the growing private rented sector achieving a 10 per cent. share in the buy-to-let market by 2006. After successfully navigating through the financial crisis in 2008, the Group returned to new lending in 2010, and in 2014 embarked on an ambitious transformation to diversify its funding sources and enter new lending markets.

Paragon Bank takes retail deposits and supports UK businesses in a wide range of sectors, including SME lending and property development and as of the date of this Prospectus it has more than 400,000 customers.

The Group's operations are organised into three divisions: Mortgage Lending, Commercial Lending and Idem Capital, and new lending is funded largely by retail deposits. 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 local specialism with centralised resources, enabling economies of scale to be achieved and centres of excellence to be developed.

New business advances and investments in the years ended 30 September 2020 and 2019, together with the year end loan balances, by division, are summarised below:

	Advances in the year ended 30 September		Net loan balances as at 30 September	
	2020	2019	2020	2019
	<i>(£, millions)</i>			
Mortgage Lending	1,259.7	1,568.6	10,819.5	10,344.1
Commercial Lending	790.8	968.0	1,514.8	1,452.1
Idem Capital	-	-	297.1	389.9
	2,050.5	2,536.6	12,631.4	12,186.1

Strategy

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

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

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

The Group is a specialist bank, focused on lending to customers in markets typically underserved by larger high street banks and who require funding in specific areas. This approach requires area specific expertise, and the Group seeks to know more than its competitors about its customers and the markets in which it operates, the products and services it offers, and the risks it incurs.

The Group is focused on designing products that meet the needs of its customers and strives to exceed their expectations. It lends prudently, based on detailed credit assessments of the customer and underlying loan collateral, to minimise the risk of non-payment and portfolio losses. In order to run a cost-efficient business, loan products are distributed principally via third party brokers, savings deposits are collected online and the Group mainly operates from a centralised location. The Group utilises technology to improve productivity and access new markets and are well placed to take advantage of digital changes to enter new markets.

Consolidated results

The Group's underlying operating profit for the year ended 30 September 2020 was 27.0 per cent. below 2019's level at £120.0 million (2019: £164.4 million). On a statutory basis profit was reduced by 25.5 per cent. to £118.4 million (2019: £159.0 million). The single largest contributor to this reduction came from the charge for loan impairments, which was 503.8 per cent. higher than in the year ended 30 September 2019, primarily attributable to Covid-19.

	For the year ended 30 September	
	2020	2019
	<i>(£, millions)</i>	
Interest receivable	491.7	505.7
Interest payable and similar charges	(213.6)	(227.3)
Net interest income	278.1	278.4
Net leasing income	3.0	3.8
Gain on derecognition of financial assets	-	9.7
Other income	14.0	15.4
Total operating income	295.1	307.3
Operating expenses	(126.8)	(125.2)
Provisions for losses	(48.3)	(8.0)
	120.0	174.1
Fair value net (losses) / gains	(1.6)	(15.1)
Operating profit being profit on ordinary activities before taxation	118.4	159.0
Tax charge on profit on ordinary activities	(27.1)	(31.6)
Profit on ordinary activities after taxation	91.3	127.4
Dividend – rate per share for the year	14.4p	21.2p
Basic earnings per share	36.0p	49.4p
Diluted earnings per share	35.6p	48.2p

Segmental results

The underlying operating profits of the Group's three divisions, Mortgage Lending, Commercial Lending and Idem Capital, are summarised below. The Group's central administration and funding costs, principally the costs of service areas, establishment costs and bond interest, are reflected as unallocated central costs.

	For the year ended 30 September	
	2020	2019
	<i>(£, millions)</i>	
Segmental profit		
Mortgage Lending	154.3	167.9
Commercial Lending	45.9	43.8
Idem Capital	19.6	48.0
	219.8	259.7
Gains on disposals	-	9.7
Unallocated central costs and other one-off items	(99.8)	(95.3)
	120.0	174.1

Summary balance sheet

	As at 30 September		
	2020	2019	2018
	(£, millions)		
Investment in customer loans			
Mortgage Lending	10,819.5	10,344.1	10,449.5
Commercial Lending	1,514.8	1,452.1	1,131.3
Idem Capital	297.1	389.9	519.8
	12,631.4	12,186.1	12,100.6
Derivative financial assets	463.3	592.4	855.7
Cash	1,925.0	1,225.4	1,310.6
Intangible assets	170.1	171.1	169.3
Other assets	315.7	220.5	51.7
Total assets	15,505.5	14,395.5	14,487.9
Equity	1,156.0	1,108.4	1,073.5
Retail deposits	7,856.6	6,391.9	5,296.6
Other borrowings	6,229.7	6,648.4	7,961.2
Derivative financial assets	132.4	80.5	4.7
Retirement Benefit obligations	20.4	34.5	19.5
Other liabilities	110.4	131.8	132.4
Total equity and liabilities	15,505.5	14,395.5	14,487.9

Business of the Issuer

Mortgage Lending

The Group's Mortgage Lending division offers buy-to-let first charge and owner-occupied first and second charge mortgages on residential property in the UK. In all its offerings, the Group targets niche markets where its focus on detailed case-by-case underwriting and its robust and informed approach to property risk differentiate it from mass market and other specialist lenders. Its core products are buy-to-let residential property mortgages targeted at specialist landlords (those who have four or more properties and / or operate through corporate structures).

The private rented sector and the buy-to-let mortgage market

Specialist landlords form the largest part of the Group's target market. These are landlords with four or more rental properties who generally run their portfolio as a business and have a high level of personal day-to-day involvement. This approach has meant these specialist landlords have been better placed than non-specialist landlords to address the disruption since 2015 in respect of a series of government fiscal policy and regulatory interventions in the buy-to-let market.

The Group is amongst a small number of specialist lenders addressing this specialist sector, which is currently underserved by many of the larger lenders, providing opportunities for the Group to grow its market share.

Buy-to-let lending reflected the performance of the larger mortgage finance sector, with new advances of £38.2 billion in the year ended 30 September 2020 reported by UK Finance, compared to £41.8 billion in the same period in the previous year, a reduction of 8.6 per cent., principally attributable to the performance in the June to September quarter. Refinancing of existing borrowings continued to represent the bulk of this activity, with 72.8 per cent. of new advances by value representing remortgages in the year ended 30 September 2020 (2019: 71.3 per cent.).

Whilst Covid-19 restrictions meant that on-site property valuations could not be conducted during April and May 2020, restricting new business activity, the Group developed an enhanced desktop valuation process and introduced products with stricter than normal loan-to-value limits. These changes allowed lending to continue through the lockdown period, particularly in the larger remortgage market, ahead of the phased reintroduction of physical valuations in late May.

In common with other lenders in the market, the Group tightened policy on properties which it could accept as security, especially in the student lettings and complex property space. Market limitations on propositions have remained in place, to a greater or lesser extent, post lockdown, with the level of supply into the buy-to-let market such that lenders can be selective.

The lettings market remained stable through the early part of the financial year commencing on 1 October 2019 with the Royal Institute of Chartered Surveyors ("**RICS**") reporting continuing supply issues and increasing tenant demand towards the end of such financial year, leading to an expectation of rent increases. The impact of Covid-19 saw a short-term downward pressure on supply, demand and rents, but in its September 2020 survey RICS expected a generally upward trend for rents and there is some evidence that restricted volumes in the residential mortgage market have kept potential first time buyers in the rented sector.

Lending activity

The Group's new lending activity in the segment during the years ended 30 September 2020 and 2019 is set out below.

	For the year ended 30 September	
	2020	2019
	<i>(£, millions)</i>	
Originated assets		
Specialist buy-to-let	1,119.0	1,315.1
Non-specialist buy-to-let	86.4	165.4
Total buy-to-let	1,205.4	1,480.5
Owner-occupied	0.3	11.9
Second charge	54.0	72.0
	1,259.7	1,564.4
Acquired assets	-	4.2
	1,259.7	1,568.6

Total mortgage originations by the Group reduced by 19.7 per cent. in the year ended 30 September 2020 when compared with the year ended 30 September 2019. The major factor driving the reduction was the Covid-19 lockdown, and its impact on market activity over the summer months of 2020.

Buy-to-let

Specialist buy-to-let lending activity fell 14.9 per cent. in the year ended 30 September 2020 when compared to the year ended 30 September 2019, principally as a result of the restricted market in the summer months, whereas non-specialist, or simple, buy-to-let lending fell by 47.8 per cent. in the same period as the Group tightened its focus on the specialist market. The new business pipeline (the loans passing through the underwriting process) was £868.1 million as at 30 September 2020 (30 September 2019: £911.7 million), showing business returning to more normal levels heading into the 2021 financial year.

The Group sources the majority of its new buy-to-let lending through specialist intermediaries and it continues to invest to ensure the service offered to them is excellent. All of the Group's significant intermediaries were able to stay in operation through the Covid-19 crisis. During the year ended 30 September 2020 the Group's regular surveys of its intermediaries showed 91 per cent. were satisfied with the ease of obtaining a response from the Group (2019: 84 per cent.).

The Group is aware of the potential for climate change to impact on the mortgage business and seeks to mitigate risk through careful consideration of the properties on which it will lend. Since 2018 all properties accepted as security must have a minimum Energy Performance Certificate ("**EPC**") rating of E at the time of offer. The Group had EPC records for 85 per cent. of its mortgage book at 30 September 2020 with 98.1 per cent. of these covered by certificates of grade E or higher (on a scale of A to G). Such action by lenders is also expected to lead to improvements in the housing stock in the private rented sector.

The Group also monitors the physical risks from climate change on its property exposure. As part of the underwriting process a property's flood risk is considered and as at 30 September 2020 less than 2.2 per

cent. of the properties the Group lends on were situated within a medium or high flood risk zone (30 September 2019: 2.5 per cent.).

The Group is also working with the Green Finance Institute to develop products which would encourage energy and carbon efficiency for the future.

Other lending

The division's other first and second charge mortgage lending has been carefully managed to ensure that only lending with appropriate risks and returns is undertaken.

Lending in the Group's second charge mortgage operation was in line with plan in the six months ended 31 March 2020, however it was scaled back in the six months ended 31 September 2020 in response to Covid-19. Within the second charge mortgage market the Group targets only higher credit quality (such as those seeking to access equity in their property while protecting an existing beneficial first mortgage rate) customers, rather than the lower-rated borrowers generally associated with this sector. This limits potential lending in this field but should provide more resilience in adverse economic conditions, as proved to be the case in the pandemic.

The Group continues to limit its exposure to first charge residential lending to owner-occupiers, given the pressure on market yields and a limited demand for products where its specialist approach adds value. The opportunities for the Group in this area principally relate to lending to the existing professional landlord customer base.

Performance

The outstanding loan balances in the segment are set out below, analysed by business line.

	As at 30 September	
	2020	2019
	<i>(£, millions)</i>	
Post 2010 assets		
First charge buy-to-let	6,202.5	5,427.7
First charge owner-occupied	51.2	68.3
Second charge	182.6	171.6
	6,436.3	5,667.6
Legacy assets		
First charge buy-to-let	4,381.3	4,674.2
First charge owner-occupied	1.9	2.3
	10,819.5	10,344.1

As at 30 September 2020, the Group's total net mortgage balance was 4.6 per cent. higher than at the start of the 2020 financial year, despite the impact of Covid-19 on advances and provisions. The balance on the post-2010 buy-to-let portfolio grew by 14.3 per cent. during the year ended 30 September 2020 and it now represents 57.3 per cent. of the total as at 30 September 2020 (30 September 2019: 52.5 per cent.).

The annualised redemption rate on buy-to-let mortgage assets, at 6.6 per cent. as at 30 September 2020 (30 September 2019: 8.6 per cent.), has continued to reduce, driven partly by the slowing of the market due to Covid-19, partly as a result of continuing initiatives to encourage existing customers to remain with the Group and partly as a result of the increasing average length of fixed rate periods over recent years.

Arrears on the buy-to-let book decreased to 0.15 per cent. as at 30 September 2020 (30 September 2019: 0.18 per cent.), although some arrears will inevitably have been suppressed by payment holidays offered as a result of Covid-19. Arrears on post-2010 lending were at 0.03 per cent. as at 30 September 2020 (30 September 2019: 0.03 per cent.). These arrears remain very low compared to the national buy-to-let market, with UK Finance reporting arrears of 0.52 per cent. across the buy-to-let sector as at 30 September 2020 (30 September 2019: 0.42 per cent.).

While just over 20 per cent. of the Group's buy-to-let customers took payment holidays when offered as a result of the Covid-19 pandemic, less than 5 per cent. remained on payment holiday as at 30 September 2020, with further reductions being seen in October and November 2020. Customer surveys indicated the

motivation for taking these holidays was, in many cases, precautionary, to ensure they were well positioned to deal with potential future tenant payment issues. The majority of respondents were also confident in their ability to resume payments after the end of the payment holiday period.

This strong performance reflects the Group's focus on the credit quality and financial capability of its customers, underpinned by a detailed and thorough assessment of the value and suitability of the property as security.

The Group is also confident that its robust approach to valuation and the loan-to-value coverage in its buy-to-let book, at 65.8 per cent. as at 30 September 2020 (30 September 2019: 67.4 per cent.) provides it with significant security in the face of the present economic stress. The levels of interest cover and stressed affordability in the portfolio suggest that its customers are also well placed to manage Covid-19 impacts on their businesses in the longer term.

Second charge arrears increased to 0.62 per cent. as at 30 September 2020 from 0.38 per cent. as at 30 September 2019, reflecting the increased seasoning and size of the portfolio. As at 30 September 2020 there were no arrears on post-2010 residential lending.

The Group's receiver of rent process for buy-to-let assets helps to reduce the level of losses by giving direct access to the rental flows from the underlying properties, while allowing tenants to stay in their homes. The Group's receiver of rent team worked with tenants through the Covid-19 lockdown to manage the rent position in a responsible manner. As at 30 September 2020, 623 properties were managed by a receiver on the customer's behalf, a reduction of 8.8 per cent. since 30 September 2019 (30 September 2019: 683 properties). Almost all of these cases currently relate to pre-2010 lending, with cases being resolved on a long-term basis to ensure the best outcome for the Group, landlord and tenants.

Commercial Lending

The Group's Commercial Lending division brings together various streams of predominantly asset-backed lending to, or through, commercial organisations and has been a major focus of growth over recent years.

The proposition is delivered through four key business lines:

- *SME lending* – providing leasing for business assets and unsecured cash flow lending for professional services firms, amongst other products
- *Development finance* – funding smaller, mostly residential, property development projects
- *Structured lending* – providing finance for niche non-bank lenders
- *Motor finance* – focused on motor vehicle financing via hire and lease purchase arrangements, light commercial vehicles, motor homes and caravans.

In each of its markets, the division's competitors are small banks and non-bank lenders. They are markets in which the largest lenders have little presence, creating a credit availability issue for customers and significant opportunities for the Group. The division relies heavily on specialist teams to address the separate business lines, either sourced externally or developed internally.

The Group's strategy in this wider market is to target niches (either product types or customer groups) where its skill sets can be best applied, and its capital effectively deployed to optimise the relationship between growth, risk and return.

Given the nature of the assets financed, in the six months ended 30 September 2020 Covid-19 resulted in a material number of customers requesting some form of payment relief, which is reflected in the provisions for the period, and new advances being sharply reduced. However, the SME sector has been the focus of government support programmes and the Group was authorised to provide loans under the Coronavirus Business Interruption Loan Scheme ("**CBILS**") and Bounce Back Loan Scheme ("**BBLs**") initiatives, making advances under these programmes from June 2020 onwards.

As part of its strategy for the division the Group continues to enhance its operational functionality in this area, developing technological solutions both to enhance customer service and to assist in the procurement processes, enabling potential customers, or the brokers they use, to access appropriate finance.

The common themes of these diverse business lines are a deep understanding of their respective markets and customer needs, together with expertise in the valuation of any security, collections and asset recovery. In common with the rest of the Group, the division's focus is on the maintenance of strong credit standards and it does not pursue business volumes at the expense of margins.

Work is ongoing to review the division's exposure to climate change risk. In development finance, the focus has been on determining the environmental impact of projects and the energy efficiency of the properties being constructed, whereas in motor finance the assessment has been on the fuel types and emissions of financed vehicles. Within SME lending, work is in progress to classify the sectors in which each of the Issuer's clients operate with respect to their respective climate change sensitivities, while the potential for green financing solutions is being investigated.

Lending activity

During the six months ended 31 March 2020, new business levels were strong across all business lines in the division. The Group's focus on widening the customer base and improving yields delivered both increased loan books and strong credit performance.

The onset of Covid-19 in March 2020 had a significant impact on volumes in the six months ended 30 September 2020. The impact on customers' businesses, and the levels of uncertainty for those not directly impacted, reduced the appetite for new finance, while the practical issues of sourcing and delivering new assets in a lockdown situation also had an impact on the leasing business.

The Commercial Lending segment saw an 18.3 per cent. reduction in new advances during the year ended 30 September 2020 compared to the year ended 30 September 2019. While development finance continued to grow, though less strongly than planned (by 6.2 per cent. during the year ended 30 September 2020) activity in other areas was more materially reduced. The new lending activity in the segment during the years ended 30 September 2020 and 2019 is set out below.

	For the year ended 30 September	
	2020	2019
	<i>(£, millions)</i>	
Development finance	385.3	362.9
SME lending	288.0	406.5
Structured lending	7.6	49.7
Motor finance	109.9	148.9
	790.8	968.0

The impact of this new business has been to increase the Group's overall Commercial Lending exposure by 4.3 per cent. to £1,514.8 million as at 30 September 2020 (30 September 2019: £1,452.1 million).

SME lending

The SME lending business performed well through the first five months of the 2020 financial year, with the Group's customers regaining some level of confidence after the political uncertainties of 2019 and becoming more willing to enter into capital commitments. Advance levels in this period were strengthening and yields were being maintained.

The Covid-19 outbreak reduced new business activity from March 2020, both as a result of customer unwillingness to enter into new commitments and, in the leasing business, as a result of the practical difficulties of sourcing and delivering large pieces of equipment, some internationally, in a global lockdown. Customers' access to other, cheaper funding sources through government sponsored relief schemes also reduced the scope for new business.

As a result of these impacts, new asset finance leasing volumes reduced by 42.5 per cent. during the year ended 30 September 2020 compared to the comparative period in 2019, to £166.1 million (2019: £288.7 million). Investment in operating leases has also continued with £12.9 million of assets acquired during the year ended 30 September 2020 (2019: £11.6 million). Short-term lending to professional services firms reduced significantly, by 32.9 per cent. to £79.1 million during the year ended 30 September 2020 (2019: £117.8 million) as Covid-19 related tax deferrals from March 2020 meant that customers did not require to

draw down in order to satisfy their liabilities. As a result, across all products, SME lending decreased by 29.2 per cent. to £288.0 million during the year ended 30 September 2020 (2019: £406.5 million).

The Covid-19 crisis saw around 46 per cent. of the SME lending business's customers applying for some form of payment relief. Relief in this market is normally given as an interest only period, where the customer continues to make payments. The financial issue for many of the customers, particularly in sectors such as construction, was the inability to generate income from the financed assets during the lockdown period, creating a cash shortfall.

In line with the approach taken on the mortgage book, extended payment holidays were offered to SME lending customers, but these were taken up by a substantially smaller number than the initial three month reliefs and as at 30 September 2020 only 2.1 per cent. of accounts remained on a payment holiday.

The long-term impact of Covid-19 on customers is difficult to predict at this stage, particularly given that many may have received short-term relief in the form of CBILS or BBLs loans from their relationship banks, although feedback from the enhanced customer contact programme is encouraging.

The Group received authorisation to participate in the government-sponsored British Business Bank CBILS and BBLs schemes, providing funding to SMEs under a government guarantee. The Group has used this facility primarily to support its existing customers, completing £25.9 million of loans during the year ended 30 September 2020, and anticipates making further advances, both to new and existing customers into the 2021 financial year. The Group is working to support industry initiatives to establish a common collections framework for CBILS and BBLs, providing certainty to customers and hopes this can be established in the near future.

The Group has continued to focus on improving its operational procedures in this area, to deliver better customer service and enhance margins, focussing on its people and processes and on improving the handling and use of data in the business to provide better targeting and analysis and to enhance customer experience. These developments continued to progress through the Covid-19 period, although they were delayed by the demands of the systems and process upgrades required for payment reliefs, CBILS and BBLs. The Group expects these investments to impact positively on efficiency and agility going forwards.

Lending activity into the 2021 financial year will be dependent on the uncertain impact of the ongoing Covid-19 situation, with volumes likely to remain depressed in the short-term. The priority of the business will be to support its customer base through the crisis while working to enhance the proposition for the future.

Development finance

Activity levels in the Group's target market were healthy in the six months ended 31 March 2020, with increased enquiry levels and higher levels of new commitments, and prospects looking promising up to the end of February 2020. At that point the onset of the Covid-19 pandemic impacted the market, with levels of lending in March 2020 being more subdued. However, demand in the six months ended 30 September 2020 rebounded, to some extent, following the easing of the lockdown and this is reflected in longer term sentiment amongst the Group's customers which is less negative than might be expected.

The Group's target customer is a small-to-medium sized developer of UK residential property. The typical types of projects funded have an average development value of approximately £7 million and are generally focused on the more liquid parts of the residential market, avoiding developments with high unit values. While the business has been concentrated in the Home Counties, with 67.0 per cent. of balances as at 30 September 2020 located in London and the South East, the Group's strategic objective is to lend more widely across the UK and this focus continued through the year. Central London property hot spots have been generally avoided.

The Group engages monitoring surveyors to review progress and costs on a regular basis through the build phase of each project, and these activities have generally continued through the Covid-19 period. The maximum level of closed sites during the crisis was 22 per cent., but these were generally quickly reopened. 73 per cent. of sites remained active throughout the lockdown period. Many projects have been subject to some level of delay, principally due to access, labour or supply issues, but overall, the customers have been resilient despite the challenges of Covid-19.

While uncertainties around Covid-19 remain, prospects for the 2021 financial year appear promising. Undrawn amounts on live facilities as at 30 September 2020 of £380.9 million are expected to flow through to advances during the 2021 financial year, while the post-offer pipeline of £171.5 million is likely to be drawn down over a longer period, though the timing may be affected by ongoing Covid-19 restrictions. The Group is investing in the business, increasing resources to allow a greater variety of propositions and routes to market to be explored.

The underlying basis of the development finance proposition remains attractive, with positive market sentiment heading into the 2021 financial year. The need for new housing will remain into the future and smaller developers have only a limited number of funding sources, which have reduced further through the Covid-19 crisis, with some non-bank lenders previously active in the sector suffering from limited lending capacity. The Group believes the business is well placed to support its developer customers during and after the pandemic.

Structured lending

The structured lending exposure has grown by 7.7 per cent. during the year ended 30 September 2020, mostly as a result of additional drawings on extant facilities in the six months ended 31 March 2020, although new facilities of £8.0 million came on stream during the year ended 30 September 2020. These loans generally fund non-bank lenders, of various kinds, and as such facilities are carefully constructed to provide a buffer for the Group in the event of default in the ultimate customer population, with first loss cover of at least 20 per cent. in all cases. The impact of Covid-19 on each of the exposures varies with the nature of the underlying assets and the Group's experienced account managers have carefully monitored each of the facilities, maintaining a high level of contact with the counterparties.

Motor finance

The Group's strategy for motor finance is to target its offerings on those specialist propositions not typically addressed by mass-market lenders. After a positive six months ended 31 March 2020, where completions increased while maintaining yield levels, business was sharply reduced in the six months ended 30 September 2020 due to the substantially reduced levels of activity seen in the automotive market throughout the Covid-19 crisis.

Performance

The outstanding loan balances in the segment are set out below, analysed by business line.

	<u>As at 30 September</u>	
	<u>2020</u>	<u>2019</u>
	<i>(£, millions)</i>	
Asset leasing	478.0	492.2
Professions finance	22.3	46.2
CBILS and BBLS	25.2	-
Invoice finance	13.5	18.5
Unsecured business lending	15.0	19.3
Total SME lending	554.0	576.2
Development finance	609.0	506.5
Structured lending	94.9	88.1
Motor finance	256.9	281.3
	<u>1,514.8</u>	<u>1,452.1</u>

Credit quality in the development finance book has been good, and the overall performance of the projects has been in line with expectation, allowing for the impact of Covid-19 on the timing of some projects. These accounts are monitored on a case-by-case basis by the Credit Risk function. As at 30 September 2020, very few cases had been classified by the monitoring process as being likely to result in a loss, with a number of the problem cases acquired with the business resolved in the year.

While no Covid-19 specific credit concerns have been identified on individual development finance accounts, the Group recognises the potential impact of increased economic uncertainty, including the impact of the end of Stamp Duty relief on the property market, and execution risk on its portfolio. The average loan to gross development value for the portfolio as at 30 September 2020, a measure of security

cover, was 63.1 per cent. (30 September 2019: 64.8 per cent.), which gives the Group a substantial buffer if any project encounters problems.

Credit performance on the division's finance leasing portfolios remains stable, with arrears in asset leasing at 1.75 per cent. and motor finance at 1.76 per cent. as at 30 September 2020 (30 September 2019: 0.43 per cent. and 1.27 per cent. respectively). However, these measures may be distorted by the effect of payment holidays.

Take up of payment reliefs in SME lending was substantial, with 3,526 accounts given relief during the year ended 30 September 2020, representing almost half of the book by number of borrowers, although only 326 of these required an extension. 2,899 (16.2 per cent.) of the Group's motor finance accounts were granted a payment holiday during the year ended 30 September 2020, with only 419 (2.3 per cent.) requiring an extension.

Performance in the structured lending operation has been in line with expectations with satisfactory pricing and no serious concerns with the operation of any of the loan facilities.

Idem Capital

The Idem Capital segment contains the Group's acquired loan portfolios, together with its pre-2010 legacy consumer accounts. These include mostly second charge and unsecured consumer loans.

The division's strategic focus is on specialist loan portfolios which can augment the organic origination activities of the Group. In these portfolios, it can enhance value through leveraging the Group's originations and collections expertise, together with its access to a variety of retail and wholesale funding. It recognises that this model is essentially opportunistic and that the flow of such opportunities to the market may be sporadic. It carefully considers the capital requirements for any potential acquisition, particularly where asset types offered require relatively large amounts of capital to be held. It also considers the potential for conduct risk issues to arise in portfolios which may contain more vulnerable customers. Many of Idem Capital's customers have been under financial stress in the past and its processes aim to generate fair outcomes for all customers, recognising any vulnerabilities. In the present Covid-19 situation, that objective has an even greater focus.

Overall Idem Capital's success rests on understanding assets, strong analytics, advanced servicing capabilities and the efficient use of funding. All these attributes are vital in its management of the impact of Covid-19 on its customer base.

New business

While the UK loan portfolio purchase market remained active in the period up to the Covid-19 outbreak, and the Group participated in a number of significant tender processes, there were few opportunities which were particularly appealing, either because of pricing, the nature of the assets or the capital which might have been required. Opportunities were even more limited in the post-Covid-19 environment, although some level of activity did remain in the market.

The Group only pursues transactions where its wider capabilities in administration and funding can provide a real benefit to the project and where the projected return is attractive in comparison to the other opportunities for the deployment of its capital.

During the year ended 30 September 2020, no portfolio acquisitions were completed (2019: none) although, as noted above, the division undertook a limited number of reviews of opportunities that were ultimately not progressed.

The main focus of the business in the year was the careful management of its existing books and ensuring that appropriate processes and systems are in place to address the Covid-19 outbreak with customers, many of whom were already identified as vulnerable.

Performance

The value of the loan balances in the segment are set out below, analysed by business line.

	As at 30 September	
	2020	2019
	<i>(£, millions)</i>	
Second charge mortgage loans	171.9	217.6
Unsecured consumer loans	109.7	134.7
Motor finance	15.5	37.6
	297.1	389.9

The reduction in balances is a result of collections from the brought forward loan portfolios, with receipts remaining relatively strong, despite the impact of Covid-19. The accounting balance was also reduced by £3.7 million as at 31 March 2020 to allow for potential reductions in future cashflows due to Covid-19. 120 month estimated remaining collections on acquired consumer assets fell to £313.7 million as at 30 September 2020 (30 September 2019: £366.4 million) for the same reasons.

Collections from customers have, however, held up well in the 2020 financial year, despite the negative economic impacts of Covid-19, with instalment receipts remaining stable despite a temporary downturn in March. Whilst the division's second charge assets are over 10 years seasoned, offering resilience to any potential downturn, the unsecured assets are less seasoned, and their performance will continue to be carefully monitored over the 2021 financial year.

Arrears on the segment's secured lending business have risen slightly to 18.8 per cent. as at 30 September 2020 (30 September 2019: 17.2 per cent.). These arrears levels remain higher than the average for the sector, but this reflects the seasoning of the balances, while the upward trend reflects the redemption of performing accounts. This book contains a significant number of accounts which are currently making full monthly payments but had missed payments at some point in the past, inflating the arrears rate. Average arrears for secured lending of 8.4 per cent. at 30 September 2020 were reported by the Finance and Leasing Association (30 September 2019: 8.7 per cent.).

Approximately 15.5 per cent. of the division's secured accounts were granted initial payment holidays with 6.5 per cent. being granted extensions.

None of the live Idem Capital loan portfolios were regarded as materially underperforming as at 30 September 2020, with strong overall cash generation, considering the impact of Covid-19. The Group monitors actual cash receipts from acquired portfolios against those forecast in the evaluation which informed the purchase price. During the year ended 30 September 2020 such collections were 109.8 per cent. of those forecast to 30 September 2020 (2019: 109.8 per cent.). The impact of Covid-19 on the long-term cash forecasts has not been significant.

Operational improvements have continued to be made in systems, processes and employment patterns which are expected to generate operational efficiencies and improve both customer service and customer experience in future periods.

Payment holidays

As a result of the Covid-19 pandemic the Group has offered payment holidays to many of its customers who requested them although as at the date of this Prospectus the take up of new payment holidays is limited. Payment holidays have been given on approximately £2.6 billion of balances since March 2020, but as at 31 December 2020, the remaining balance stood at £104.6 million, of which £93.4 million represented extensions due to mature during the three months ended 31 March 2021. The Group continues to maintain a close dialogue with affected customers, both directly and through its extensive customer insight assessments.

Recent developments

Specialist buy-to-let advances reached £298.7 million during the three months ended 31 December 2020. Although this represents a £110.8 million reduction when compared to the three months ended 31 December 2019, it largely reflects the lagged impacts of the first lockdown on the Group's pipeline and market wide challenges facing the execution of housing transactions. Total advances during the three months ended 31 December 2020 stood at £521.8 million (£304.1 million mortgage advances, £217.7 million commercial

advances), down from £684.9 million during the three months ended 31 December 2019. Net loan balances grew to £12.67 billion as at 31 December 2020.

The buy-to-let pipeline as at 31 December 2020 stood at £966.8 million, £152.8 million above 31 December 2019. The pipeline is expected to convert at a faster rate over the three months ended 31 March 2021, given the concentration of completions arising from the stamp duty changes which impact from the end of March 2021. Redemptions reduced by 21.5 per cent. to £169.2 million, continuing to reduce and remaining below historical averages.

The growth in commercial lending advances is led by development finance, where advances during the three months ended 31 December 2020 are ahead of those seen during the three months ended 31 December 2019. SME lending has shown growth from the three months ended 30 September 2020, aided by a further £13.6 million of lending as part of the CBILS and BBLs schemes, but remains below the levels seen pre-Covid-19.

Funding

The Group's funding strategy, built on diversification and sustainability, was both enhanced and tested during the year ended 30 September 2020. New initiatives widened the footprint of the retail deposit operation, new forms of liquidity funding were introduced, and additional central bank funding schemes accessed.

This variety of funding options ensures that pricing and availability issues in any individual funding market can be mitigated, while, at the same time, maintaining the flexibility to fund strategic developments. In particular, it protects the Group from the effects of incidents such as the Covid-19 crisis. This saw capital market pricing seriously disrupted while emergency funding from the UK authorities was channelled principally through central bank lending to the UK banking sector.

Throughout the period, the Group raised the majority of its new funding through the retail deposit market, where volumes proved robust throughout the Covid-19 crisis, as consumers' appetite for saving increased, either through economic anxiety or through reduced opportunities to spend. The Group's retail deposit balance grew by 22.9 per cent. to £7,856.6 million as at 30 September 2020 (30 September 2019: £6,391.9 million), representing 55.8 per cent. of balance sheet funding.

The Group's funding as at 30 September 2020 is summarised as follows:

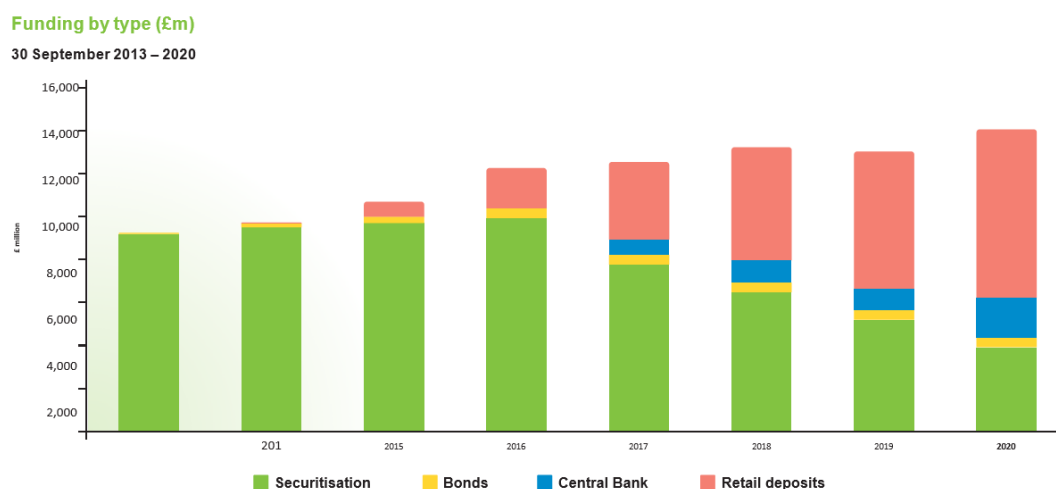
	As at 30 September		
	2020	2019	2018
	(£, millions)		
Retail deposit balances	7,856.6	6,391.9	5,296.6
Securitised and warehouse funding	3,928.3	5,206.9	6,490.3
Central bank facilities	1,854.4	994.4	1,024.4
Tier 2 and retail bonds ⁽¹⁾	446.6	446.1	445.4
Total on balance sheet funding	14,085.9	13,039.3	13,256.7
Off balance sheet central bank facilities	-	109.0	108.7
Other off balance sheet liquidity facilities	150.0	-	-
Total equity and liabilities	14,235.9	13,148.3	13,365.4

⁽¹⁾ On 15 March 2021, the Issuer announced an invitation to holders of its £150,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026 (ISIN: XS1482136154) to tender any and all of such notes for purchase by the Issuer for cash. The offering of the Notes is not conditional on any minimum amount of such notes being repurchased pursuant to such tender offer.

The overall UK economic outlook has remained uncertain over the whole 2020 financial year, with the political instability of autumn 2019 followed in turn by the December 2019 general election and the Covid-19 crisis, while uncertainty over the final terms of any Brexit settlement continued throughout the 2020 financial year. All of these factors affected market sentiment, generating considerable volatility.

In response, the Group maintained a conservative stance on liquidity throughout the year. £1,701.1 million of cash was available for liquidity and other purposes as at 30 September 2020 (30 September 2019: £872.1 million). The Group's contingent liquidity policy will be kept under review as the ultimate outcome of the Covid-19 crisis becomes clearer and longer term trends become more evident.

The Group's funding has become increasingly diversified in the years following the authorisation of Paragon Bank in 2014. This is illustrated by the chart below which shows, for each of the financial year ends since 2013, the outstanding funding balance by type.



As of the date of this Prospectus, the Group's principal source of funding is retail deposits, which have performed well throughout the Covid-19 crisis to date. These are supplemented by participation in central bank facilities such as the Term Funding Scheme ("TFS") and the Term Funding Scheme with additional incentives for SMEs ("TFSME"). Funding from bonds and public securitisations has reduced, with the most recent securitisations being retained for use as collateral to support central bank borrowings.

LIBOR, which had been the principal sterling reference rate used by the Group, is due to be withdrawn by the end of 2021, with regulators confirming their commitment to this deadline, despite the Covid 19 crisis. All Group debt issuance since 2019 has been priced with reference to SONIA and, during the year ended 30 September 2020, SONIA became the Group's reference rate for new business hedging operations.

However, much of the Group's outstanding debt issuance is priced by reference to LIBOR and other IBOR rates and the Group is actively participating in industry initiatives to determine the optimal treatment of such securities on the withdrawal of these rates. The Group also has a significant LIBOR-linked asset base, mostly relating to legacy mortgage assets, where it is participating in a Bank of England 'Tough Legacy Task Force' addressing the impact of transition on such products. This aims to ensure fair and consistent outcomes for customers with such exposures.

As at 31 December 2020, deposit balances had increased to £8.6 billion. The portfolio average deposit rate as at 31 December 2020 was 1.22 per cent. compared to the 1.34 per cent. reported at the end of September 2020.

During the three months ended 31 December 2020, the Group completed its Paragon Mortgages (No 28) plc securitisation. The notes were fully retained and will be used to support collateral requirements for future TFSME drawings. The Group has continued to draw on the TFSME and has made its first TFS repayments, the balances being £1,245.0 million for TFSME and £609.4 million for TFS as at 31 December 2020.

In December 2020, the Group redeemed its Paragon Mortgages (No 15) plc legacy securitisation. A feature of this legacy structure was a swap position to support floating rate notes denominated in foreign currency. Whilst the notes were effectively hedged to sterling, the resulting fair value position underpinned a capital requirement that disappeared when the deal was refinanced, reducing risk weights and further enhancing the Group's capital position as at 31 December 2020.

As at 31 December 2020, and after an accrual towards potential future dividends, the Group's unverified common equity Tier 1 and total capital ratios remained strong at 15.1 per cent. and 17.3 per cent. respectively (14.6 per cent. and 16.8 per cent. on a fully loaded basis).

Management of Paragon Banking Group PLC

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

<u>Name</u>	<u>Role</u>	<u>Principal activities outside the Group</u>
Fiona Clutterbuck	Chair	Non-executive director of Sampo PLC (Finnish listed financial services company) and a member of its audit committee
	Chair: Nomination Committee	Non-executive director and interim Chair of M&G plc
	Member: Risk and Compliance and Remuneration Committees	Non-executive director of Hargreaves Lansdown PLC and its audit committee chair (to 8 October 2020)
Nigel Terrington	Chief Executive Officer ("CEO")	Board member of UK Finance
		Chairman of UK Finance's Specialist Banks Advisory Committee
		Member of HM Treasury's Home Finance Forum
		Member of Bank of England's Residential Property Forum
Richard Woodman	Chief Financial Officer ("CFO")	None
Hugo Tudor	Non-Executive Director	Director: Damus Capital Limited
	Chair: Remuneration Committee	Director: Vitec Global Limited, Vitec Air Systems Limited and Vitec Aspida Limited
	Member: Audit, Nomination (from 24 September 2020) and Risk and Compliance Committees	
Alison Morris	Non-Executive Director	Non-executive director of Vanquis Bank Limited, part of the Provident Financial Group PLC
	Chair: Audit Committee (from 24 September 2020, member since appointment)	Non-executive director of M&G Group Limited, part of the M&G plc group
	Member: Remuneration Committee, Risk and Compliance Committee	
Barbara Ridpath	Non-Executive Director	Non-executive director of ORX in Switzerland, a trade association for operational risk professionals and a director of ORX UK Limited
	Member: Audit, Nomination and Risk and Compliance Committees	Chair of the Ethical Investment Advisory Group of the Church of England

<u>Name</u>	<u>Role</u>	<u>Principal activities outside the Group</u>
		Member of the International Advisory Council of the Institute
Graeme Yorston	Non-Executive Director Member: Nomination, Remuneration and Risk and Compliance Committees	None
Peter Hill	Non-Executive Director Member: Risk and Compliance Committee	Non-executive director of Pure Retirement Group Limited and Pure Retirement Limited Chair of Mortgage Brain Holdings Limited Director of Leeds Rugby Foundation

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

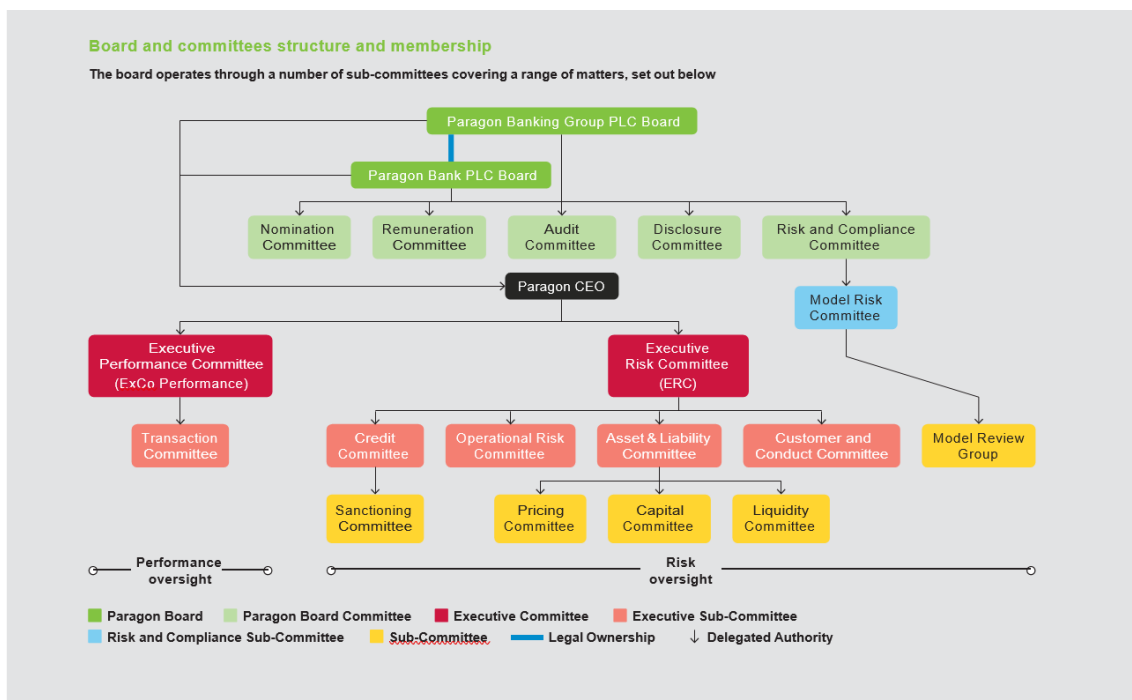
There are no potential conflicts of interest between the duties to the Issuer of the directors listed above and their private interests or other duties.

Risk Governance

The Board of Directors (the "**Board**") has overall responsibility for the governance of risk in the Group. The way it discharges these duties is set out below.

Committee structures

The Group has a number of board sub-committees and executive committees providing risk governance, the latter of which take their mandate directly from the CEO. The structure of these board and executive committees is shown below.



During the 2020 financial year, the Board reviewed the Group's broader committee structure, processes and procedures in order to enhance the wider governance framework and to further align it with the UK Corporate Governance Code 2018. As a result, the Executive Committee was designated into the Executive Performance Committee ("**Performance ExCo**") and the ERC (as defined below).

The ERC was established to support the CEO with further embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group and reporting the same to the Board. The Performance ExCo continues to provide support to the CEO in the day-to-day running and management of the Group and, where appropriate, items discussed at the Performance ExCo are escalated to the Board for further discussion. All sub-committees under the ERC and Performance ExCo continue to be reviewed to determine whether further enhancements can be introduced, whilst maintaining rigorous oversight and control. All sub-committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The oversight of risk in the Group is primarily conducted through the committees described below:

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in fulfilling its responsibilities for risk management and 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 2020, include all matters indicated by the 2018 Code. The Committee's responsibilities include reviewing:

- Recommendations and matters for escalation from the ERC
- The effectiveness of the Group's 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, as well as its obligations under significant contracts
- The appropriateness of the Group's risk culture, to ensure it supports the Group's stated risk appetite
- 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 Committee provides ultimate 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 Risk and Compliance Committee delegates day to day oversight for model risk to the MRC (as defined below). The Risk and Compliance Committee meets at least four times a year and normally invites the executive directors, Chief Reporting Officer, Chief Operating Officer and Internal Audit Director to attend its meetings. However, it reserves the right to request any of these individuals to withdraw or to request the attendance of any other Group employee. The Committee meets with the Chief Reporting Officer at least once a year, without the presence of executive management, to discuss their remit and any issues arising from it. The Committee also has the opportunity to meet with the Internal Audit Director 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 ERC was established during the year to assist the CEO in designing and embedding the Group's risk management framework, monitoring adherence to risk appetite statements and identifying, assessing and controlling the principal risks within the Group. 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 Board Risk and Compliance Committee, recommending changes as appropriate. Key areas of focus for the ERC include:

- Developing and, at least annually, reviewing the appropriateness and effectiveness of the overall risk management framework 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 emerging risks as they arise, including consideration of their potential impact on the Group's business objectives, strategy and business plans, as well as risk choices, appetites 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 as they might impact customers
- Ensuring compliance with relevant PRA and FCA regulations (excluding the Senior Management and Certification Regime, which is overseen by the Executive Committee)
- Reviewing the process and outcome of the Group's Internal Capital Adequacy Assessment Process, Internal Liquidity Adequacy Assessment Process, Recovery Plan and Resolution Pack together with 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 ALCO (as defined below), CCC (as defined below), Credit Committee, and ORC (as defined below). Each of the executive 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 CFO.

The principal purpose of ALCO is to monitor and review the financial risk management of the Group's balance sheet. As such, it is responsible for overseeing all aspects of market risk, liquidity risk and capital management as well as the treasury control framework. ALCO operates within clearly delegated authorities, monitoring exposures and providing recommendations on actions required. It also monitors performance against appetite on an on-going basis and makes recommendations for revisions to risk appetites to the Risk and Compliance Committee.

Customer and Conduct Committee ("CCC")

The CCC comprises heads of relevant functions and is chaired by the Chief Reporting Officer.

The CCC is responsible for overseeing the Group's conduct risk and compliance arrangements. The Committee considers conduct risk information such as details of conduct breaches; systems and procedures for delivering fair outcomes to customers; the product governance framework; monitoring reports; and employee incentive schemes. It also considers product reviews from a customer perspective. 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, finance and collections 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 for the Group. It also provides guidance and makes recommendations in order to implement the Group's strategic plans for credit. The 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 Risk and Compliance Committee. The Committee also operates the Group's most senior lending mandate.

Operational Risk Committee ("ORC")

The ORC comprises heads of relevant functions and is chaired by the Operational 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. The Committee remit includes risks arising from personnel, technology, and environmental matters within the business. The Committee 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 appetite on an on-going basis.

Model Risk Committee ("MRC")

The MRC reports directly to the Risk and Compliance Committee and comprises senior managers from Risk, Finance and the main business areas. It is chaired by the Chief Reporting Officer and attended by Hugo Tudor, a non-executive director. The role of the MRC is to review and make recommendations on all material aspects of the rating and estimation processes in relation to key credit and finance models. The MRC also acts as the "Designated Committee" for internal ratings-based approach purposes, approving all material aspects of internal rating systems.

TAXATION

UNITED KINGDOM TAXATION CONSIDERATIONS

The following is a summary of the UK withholding taxation treatment at the date hereof in relation to payments of interest in respect of the Notes. It is based on the Issuer's understanding of current United Kingdom tax law and the published practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other UK 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. 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 UK 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 UK 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 UK.

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

UK Withholding Tax

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

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

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

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Other considerations

Where interest has been paid under deduction of UK income tax, Holders who are not resident in the UK 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 UK 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 UK withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

OTHER TAX CONSIDERATIONS

The proposed financial transactions tax ("FTT")

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

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

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

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

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

U.S. Foreign Account Tax Compliance Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the UK) 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 publication of the final regulations defining "foreign passthru payment" and 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). However, if additional notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Merrill Lynch International and UBS AG London Branch (the "**Joint Lead Managers**") have, in a subscription agreement dated 23 March 2021 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 100 per cent. of their principal amount. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act 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 in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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.

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 EEA. 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 MiFID II; and/or
- (b) a customer within the meaning of Directive 2016/97/EU, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

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 UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

- (c) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; and/or
- (d) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as 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.

Other

Each Joint Lead Manager has further represented, warranted and undertaken that:

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

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 the Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, 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

Each Joint Lead Manager has represented, warranted and agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been duly authorised by a resolution of the board of directors of the Issuer passed on 28 January 2021 and a resolution of a committee of directors of the Issuer dated 11 March 2021.

Listing and Trading

2. Applications have been made for the Notes to be admitted to listing on the Official List of the FCA and to trading on the Main Market of the London Stock Exchange and the Sustainable Bond Market of the London Stock Exchange. The total expenses related to the admission to trading are expected to be £5,800.

Legal and Arbitration Proceedings

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

Significant/Material Change

4. There has been no material adverse change in the prospects of the Issuer since 30 September 2020. There has been no significant change in the financial position or financial performance of the Issuer or the Group since 30 September 2020.

Auditors

5. The consolidated financial statements of the Issuer have been audited without qualification for the years ended 30 September 2020 and 30 September 2019 by KPMG LLP, One Snowhill, Snow Hill Queensway, Birmingham B4 6GH, United Kingdom, chartered accountants.

Joint Lead Managers Transacting with the Issuer

6. Some of 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. Certain of 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 its affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer and its affiliates consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Documents on Display

7. Copies of the following documents may be inspected during normal business hours at the registered office of the Issuer at 51 Homer Road, Solihull, West Midlands B91 3QJ, United Kingdom for so long as the Notes remain outstanding:
 - (a) the constitutive documents of the Issuer (available at <https://find-and-update.company-information.service.gov.uk/>);
 - (b) the 2020 Audited Consolidated Financial Statements and the 2019 Audited Consolidated financials (available at www.paragonbankinggroup.co.uk/investors/reports-results-presentations);
 - (c) the 2020 Pillar III Disclosures (available at https://www.paragonbankinggroup.co.uk/resources/paragon-group/documents/reports-presentations/2021/pbg_2020_pillar_iii_disclosures);
 - (d) the Trust Deed (available at <https://www.paragonbankinggroup.co.uk/green-bond>); and
 - (e) this Prospectus (available at <https://www.paragonbankinggroup.co.uk/green-bond>).

Credit Ratings

8. The Notes will be rated BB+ by Fitch. In accordance with Fitch's ratings definitions available as at the date of this Prospectus on <https://www.fitchratings.com/products/rating-definitions>, a rating of "BB" indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.

Yield

9. On the basis of the issue price of the Notes of 100 per cent. of their principal amount, the gross yield of the Notes to the Reset Date is 4.375 per cent. per annum on a semi-annual basis. This figure is calculated on the basis of the issue price and as at the date of this Prospectus, and is not an indication of future yield.

Third Party Information

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

Clearing

10. The Notes have been accepted for clearance through the Clearing Systems. The ISIN is XS2312738599 and the common code is 231273859.
11. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

The Legal Entity Identifier

12. The Legal Entity Identifier (LEI) code of the Issuer is 213800S1TDKIB1IUTS72.

**REGISTERED
OFFICE OF THE ISSUER**

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