PROSPECTUS dated 19 January 2017

Close Brothers Group plc

(*incorporated with limited liability in England and Wales with registered number 520241*)

£175,000,000 Callable Dated Subordinated Notes
Issue price: 99.759 per cent.

The £175,000,000 Callable Dated Subordinated Notes (the "**Notes**") will be issued by Close Brothers Group plc (the "**Issuer**") on or about 24 January 2017 (the "**Issue Date**"). The Notes will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 24 January 2022 (the "**Reset Date**"), at a rate of 4.25 per cent. per annum and thereafter at the Reset Interest Rate as provided in Condition 5. Interest will be payable on the Notes semi-annually in arrear on each Interest Payment Date, commencing on 24 July 2017.

Unless previously redeemed or purchased and cancelled, or (pursuant to Condition 7(f)) substituted, the Notes will mature on 24 January 2027 and shall be redeemed at their principal amount, together with any accrued and unpaid interest on such date. The Noteholders will have no right to require the Issuer to redeem or purchase the Notes at any time. The Issuer may, in its discretion but subject to Regulatory Approval, elect to (a) redeem all (but not some only) of the Notes at their principal amount, together with any accrued and unpaid interest on such date, (i) on the Reset Date or (ii) at any time if a Tax Event (as defined in Condition 7(d)) has occurred or a Capital Disqualification Event (as defined in Condition 7(c)) has occurred, and in the case of paragraphs (i) and (ii), subject to compliance with the Regulatory Preconditions, or (b) repurchase the Notes at any time in accordance with the then prevailing Regulatory Capital Requirements.

The Notes will be direct, unsecured and subordinated obligations of the Issuer and rank *pari passu*, without any preference among themselves. The Notes will, in the event of the winding-up of the Issuer, be subordinated to the claims of all Senior Creditors but shall rank (a) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital (as defined in Condition 19) and (b) in priority to the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital (as defined in Condition 19) and all obligations which rank, or are expressed to rank, *pari passu* therewith and all classes of share capital of the Issuer.

Application has been made to the UK Financial Conduct Authority (the "**FCA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 (as amended from time to time) (the "**UK Listing Authority**" and the "**FSMA**", respectively) for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). This Prospectus has been approved by the UK Listing Authority for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**").

The Notes will be issued in registered form and available and transferable in minimum denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Notes will initially be represented by a global certificate in registered form (the "**Global Certificate**") and will be registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**" and, together with Euroclear, the "**Clearing Systems**").

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

The Notes are expected, on issue, to be rated A3 and A- by Moody's Investors Service, Inc. and Fitch Ratings Ltd. respectively. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Joint Lead Managers

HSBC **NatWest Markets** **UBS Investment Bank**

This Prospectus may be used only for the purposes for which it has been published.

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Group (as defined below) and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

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

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

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

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

Neither the Joint Lead Managers nor the Trustee nor any of their respective affiliates have authorised the whole or any part of this Prospectus (including the documents incorporated by reference in the Prospectus) and none of them makes any representation or warranty or accepts any responsibility as to the accuracy and completeness of the information contained or incorporated by reference in this Prospectus.

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

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

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

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement; (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Prospective investors should also consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Notes.

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 (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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

IN CONNECTION WITH THE ISSUE OF THE NOTES, NATWEST MARKETS AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING 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 ACTION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE 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 STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

FORWARD-LOOKING STATEMENTS

Certain information contained in this Prospectus, including any information as to the Group's (as defined below) strategy, market position, plans or future financial or operating performance, constitutes "forward looking statements". All statements, other than statements of historical fact, are forward looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward looking statements.

Forward looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Issuer, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward looking statements. Such factors include, but are not limited to, those described in "Risk Factors".

Investors are cautioned that forward looking statements are not guarantees of future performance. Forward looking statements may, and often do, differ materially from actual results. Any forward looking statements in this Prospectus speak only as at the date of this Prospectus, reflect the current view of the board of directors of the Issuer (the "**Board**") with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Issuer's operations, results of operations, strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision. All of the forward looking statements made in this Prospectus are qualified by these cautionary statements. Specific reference is made to the information set out in "*Risk Factors*" and "*Description of the Issuer and the Group*".

Subject to applicable law or regulation, the Issuer explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward looking statements in this Prospectus that may occur due to any change in the Issuer's expectations or to reflect events or circumstances after the date of this Prospectus. In this Prospectus, references to "**Close Brothers**" and to "**Group**" are to Close Brothers Group plc and its subsidiaries, taken as a whole. The terms "**Issuer Group**" and "**Subsidiary**" have the meanings given to them in Condition 19 of the Conditions.

Unless otherwise indicated, all references in this Prospectus to "**sterling**", "**pounds sterling**", "**GBP**", "**£**" or "**pence**" are to the lawful currency of the United Kingdom. The Issuer prepares its financial statements in pounds sterling. All references to "**€**" or "**EUR**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

TABLE OF CONTENTS

OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

*The following overview provides an overview of certain of the principal features of the Notes and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in "Terms and Conditions" have the same respective meanings when used in this overview. References to numbered Conditions are to the terms and conditions of the Notes (the "**Conditions**") as set out under "Terms and Conditions".*

Issuer	Close Brothers Group plc
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent and Agent Bank	Citibank, N.A., London Branch
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG
Notes	£175,000,000 Callable Dated Subordinated Notes.
Risk factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Trust Deed. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under "*Risk Factors*".
Status of the Notes	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu*, without any preference, among themselves.
Rights on a winding-up	The rights and claims of Noteholders in the event of a Winding-Up of the Issuer are described in Conditions 4(a) and 10.
Interest	The Notes will bear interest on their principal amount: (a) from (and including) the Issue Date to (but excluding) the Reset Date, at the rate of 4.25 per cent. per annum; and (b) thereafter, at the Reset Interest Rate (as described in Condition 5(c)), in each case payable semi-annually in arrear on 24 January and 24 July in each year (each, an "**Interest Payment Date**"), commencing 24 July 2017.
Maturity	Unless previously redeemed or purchased and cancelled or (pursuant to Condition 7(f)) substituted, the Notes will mature on 24 January 2027 and shall be redeemed at their principal amount together with any accrued and unpaid interest on such date. The Notes

	may only be redeemed or repurchased by the Issuer in the circumstances described below (as more fully described in Condition 7).
Optional redemption	The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption, substitution and variation*" below, redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any interest accrued and unpaid on such date.
Redemption following a Capital Disqualification Event or a Tax Event	The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption, substitution and variation*" below, redeem all (but not some only) of the Notes at any time following the occurrence of a Capital Disqualification Event (as defined in Condition 7(c)) or a Tax Event (as defined in Condition 7(d)), in each case, at their principal amount together with any interest accrued and unpaid on such date, subject to, in the case of a redemption occurring prior to the Reset Date following the occurrence of a Tax Event, the Issuer demonstrating to the satisfaction of the Supervisory Authority that the relevant Tax Law Change is material and was not reasonably foreseeable as at the Issue Date.
Substitution and Variation following a Capital Disqualification Event or a Tax Event	The Issuer may, in its sole discretion but subject to the conditions set out under "*Conditions to redemption, substitution and variation*" below, substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Compliant Notes (as defined in Condition 19) if, prior to the giving of the relevant notice to Noteholders, a Tax Event or Capital Disqualification Event has occurred.
Conditions to redemption, substitution and variation	Any redemption, substitution or variation of the Notes will be subject to obtaining Regulatory Approval and in the case of any redemption (to the extent required by prevailing Regulatory Capital Requirements) to: (a) the Issuer 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 Issuer Group; or (b) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time.

In addition, 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 (a) and (b) above, the Issuer having complied with such other pre-condition.

Purchase of the Notes

The Issuer or any of its Subsidiaries may, at its option but subject to Regulatory Approval, 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. All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, cancelled.

Withholding tax and Additional Amounts

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will (subject to certain customary exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction.

Payments in respect of principal and interest on the Notes will be made subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the preceding paragraph) any law implementing an intergovernmental approach thereto and the Issuer will not be liable to Noteholders for any taxes or duties of whatever nature imposed or levied by such laws, agreements or regulations.

Enforcement

If the Issuer has not made payment of any amount in respect of the Notes for a period of seven days or more (in the case of any payments of principal), or (in the case of any interest payment or any other amount in respect of the Notes) for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up. In the event of a Winding-Up (whether or not instituted by the Trustee) the Trustee may prove in such Winding-Up, such claim being that set out in Condition 4(a).

The Trustee may, at its discretion and without notice, institute such other proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Notes or the Trust Deed (other than any payment obligation) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to the Conditions or the Trust Deed. No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a Winding-Up or to prove in a Winding-Up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing.

See Condition 10 for further information.

Modification

The Trust Deed will contain provisions for convening meetings of Noteholders to consider any matter affecting their interests, pursuant to which defined majorities of the Noteholders may consent to the modification or abrogation of any of the Conditions or any of the provisions of the Trust Deed, and any such modification or abrogation shall be binding on all Noteholders.

In addition, the Trustee may agree (other than in respect of a Reserved Matter, as defined in the Trust Deed), without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

Substitution of the Issuer	The Trustee may, without the consent of the Noteholders but subject to Regulatory Approval, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute of the Issuer) as the principal debtor under the Notes and the Trust Deed of the Issuer's Successor in business or the Issuer's Holding Company subject to: (a) the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Noteholders; and (b) certain other conditions set out in the Trust Deed being complied with.
Form	The Notes will be issued in registered form. The Notes will initially be represented by a Global Certificate and will be registered in the name of a nominee of a common depositary for the Clearing Systems.
Denomination	£100,000 and integral multiples of £1,000 in excess thereof.
Clearing systems	Euroclear and Clearstream, Luxembourg.
Listing	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for admission of the Notes to trading on its regulated market.
Selling restrictions	United States and United Kingdom.
Governing law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law.
ISIN	XS1548943221
Common Code	154894322

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

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

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

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

RISKS RELATED TO THE GROUP'S BUSINESS

Set out below is a brief description of potential risk factors that could have an impact on the Group's business:

Risk Management

The management of risk is an integral part of all of the Group's activities. Risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including credit risk (retail, wholesale and corporate), market risk, operational risk, securitisation risk, concentration risk, liquidity and funding risk, reputational risk, strategic risk, pension obligation risk, residual value risk and legal and regulatory risk. The Group seeks to monitor and manage its risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While the Group employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques, and the judgements that accompany their application, cannot anticipate every unfavourable event or the specifics and timing of every outcome. Accordingly, the Group's ability to successfully identify and balance risks and rewards, and to manage all material risks, is important. Failure to manage such risks appropriately could have a significant effect on the Group's business, financial condition and/or results of operations.

Reputational Risk

The Issuer considers a loss of reputation to be a significant risk to a business operating in the financial services sector, and believes that the risk to its reputation would arise as a result of a failure to manage the Group's other risks. Risk to the Group's reputation can arise from numerous sources, including among others, employee misconduct, litigation, failure to deliver minimum standards of service and quality, compliance failures, breaches of legal and regulatory requirements, unethical behaviour (including inappropriate sales and trading practices), and the activities of customers and counterparties.

The Group places the highest importance on risk management at all levels of the organisation, and strives to demonstrate the highest level of integrity in all its activities, dedicating significant senior management time and other resources to ensure all employees are aware of the need to display the highest ethical standards in their day to day work. In addition, Close Brothers is exposed to risks relating to the operation and conduct of third parties' intermediary sales teams, however ongoing rigorous due diligence is undertaken both through assurance reviews and customer complaint management.

The Group recognises that the ability to attract and retain customers and conduct business with its counterparties could be adversely affected if the Group's reputation or the Close Brothers brand is damaged. Failure to address, or appearing to fail to address, issues that give rise to reputational risk could damage the issuer's reputation and materially and adversely affect its business, results of operations and prospects.

Adverse Economic Conditions

The Group engages in a diversified range of activities within the financial services industry, with the majority of transactions undertaken within the UK. As such the Group has an exposure to global economic conditions generally and to economic conditions in the UK in particular.

There remains a significant degree of uncertainty about future economic development, and economic conditions remain challenging. In respect of the European economy, although the risk of sovereign default has declined due to the continuing actions of the European Central Bank and the EU and improving economic conditions, the risk of default and the possibility that the contagion effect spreads to other member states of the European Union remains. Investors remain cautious and a slowing or failing of the economic recovery would likely aggravate the adverse effects of difficult economic and market conditions on the Group and on others in the financial services industry.

At present, bad debt rates are partly cushioned by low interest rates which have helped customer affordability, however the risk remains of increased bad debt as interest rates start to rise. The timing, pace and quantum of the increase will be a key factor in impact on bad debt rates. The Group continues to monitor and assess impact through its portfolio reviews.

Demand for the Group's products and services is sensitive to economic conditions, particularly those within the UK. Whilst the UK economy is recovering and the UK government has taken measures to address the rising and high level of national debt, including reducing its borrowing and public spending cuts, the possibility of a renewed economic downturn, and the associated impacts on the Group's profitability, remains a real risk, and the UK's vote to leave the European Union has added a new element of uncertainty to the economic outlook. The return of market instability and the reduced availability of credit could impact consumer confidence, increase market volatility, increase funding costs, reduce business activity and lead to increases in commercial and consumer loan delinquencies. Factors relating to general economic conditions such as consumer spending, business investment, government spending, the volatility and strength of both debt and equity markets, and inflation, all have the potential to affect the profitability of the Group.

Due to the diversified nature of the Group's activities, variable and/or volatile economic conditions could impact the Group in a number of different ways including, among other things, lower demand for the Group's products and services, high bad debt charges due to the inability of customers to repay loans and associated interest and charges and reductions in asset values held as security for those loans. Historically, the Group has operated in specialist areas where staff have significant expertise of the market and its products, along with an in depth understanding of the requirements of the Group's customers, which has improved the Group's resilience, enabling it to trade profitably through economic downturns. However, in a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, demand for the Group's products and services could be materially and adversely affected.

Economic stagnation, or a deterioration in economic conditions, could result in increase in impairments to the Group's loan book as a result of customers becoming unable to service debt and/or a reduction in the value of assets on which loans are secured, and declines in the market value of the debt securities held by the Group. Such instability and reduction in asset values could have a material adverse effect on the Group's business, financial condition and/or results of operations.

While the Group's risk management, internal control systems and overall business model are designed to enable it to trade profitably through downturns in the economic cycle, there can be no assurance that the Group's business, financial condition, results of operations and/or prospects will not be adversely affected by future deterioration in economic conditions.

The vote by the United Kingdom to leave the European Union

On 23 June 2016, the United Kingdom voted in a national referendum (the "**Referendum**") to withdraw from the European Union. The result of the Referendum does not legally oblige the United Kingdom to leave the European Union. Negotiations are expected to commence to establish the terms of the United Kingdom's relationship with the European Union in the future. Details around the negotiation process, including the length of time this process will take and the likely outcome, remain unclear.

As the Group is a predominantly UK lender, the direct impact of the Referendum on the Group is expected to be relatively limited. However, the overall impact on the Group and its customers of the expected prolonged period of uncertainty is difficult to predict. Therefore, while the outcome of the Referendum is not considered a principal risk for the Group in itself, a period of prolonged economic uncertainty is likely following the Referendum and this heightened uncertainty for the

UK economy has increased the potential risk of higher credit losses for the Group. As such, no assurance can be given that the Group's operating results, financial condition and prospects would not be adversely impacted as a result or that such matters would not adversely affect the market value and/or the liquidity of the Notes in the market and/or the ability of the Issuer to satisfy its obligations under the Notes.

Until the terms and timing of the United Kingdom's exit from the European Union become clear, it is not possible to determine the impact that the Referendum, the United Kingdom's departure from the European Union and/or any related matters may have on general economic conditions in the United Kingdom and/or on the business of the Group.

Credit Rating Downgrades

Credit ratings assigned to members of the Group affect the cost and other terms upon which the Group, including the Issuer, is able to obtain funding. Rating agencies regularly evaluate the Group and certain members of the Group, as well as their respective debt securities. Their ratings are based on a number of factors, including the financial strength of the Group (or of the relevant member) as well as conditions affecting the financial services industry generally. There can be no assurance that the rating agencies will maintain the Group's or the relevant member's current ratings or outlook, especially in light of the difficulties in the financial services industry and the financial markets in recent years. Any reduction in those ratings and outlook could increase the cost of the Group's funding, limit access to capital markets, and require additional collateral to be placed and, consequently, adversely affect the Group's interest margins and/or affect its liquidity position.

Credit/Counterparty Risk

The Group places deposits with, and may hold debt securities of, financial institution and non-banking financial institution counterparties, and such deposits and holdings of debt securities may be material in amount. The Group also enters into derivative contracts with counterparties, which create an exposure through the life of those contracts. Derivative contracts are vanilla in nature and cash collateral is paid and/or received on a daily basis. The credit quality of the counterparties with whom the Group places deposits, whose debt securities the Group holds, and with whom the Group transacts, is monitored by the risk and compliance committees within the Group against established limits, and such limits comply with the large exposure limits imposed by the regulatory requirements to which the Group is subject. There can, however, be no assurance that the Group would not incur financial loss if any such counterparties were to default or fail.

The Banking division's lending activities give rise to credit risk. The Group remains exposed to credit losses if these customers are unable to repay loans and any outstanding interest and fees. Failure to recover the amounts lent or the interest and fees associated with those loans could result in a significant bad debt charge. The Group adheres to strict lending criteria and places significant emphasis on the quality of any security provided. The Group's loan book is predominantly secured with conservative loan to value ratios. Average loan size remains small with short average tenor. The portfolio is diversified with a limited number of individual deals which could materially impact the Group's earnings.

Credit risk exposure within the Group's Securities division is limited as the business trades in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. Counterparty exposure and settlement failure monitoring controls are in place.

Funding Risk

The Group requires access to sources of funding to support its client lending whilst maintaining a conservative liquidity position. The Group's inability to source sufficient funding could constrain growth and, in extreme circumstances, require the Group to reduce lending levels. Since the banking crisis in late 2008, the Group has diversified its sources of funding, by type and by tenor, and the cost and availability of these sources continues to fluctuate. Although the Group has been able to access sufficient funding from diverse sources to support its operations, there can be no assurance that sufficient funding would always be available to the Group in future.

Liquidity Risk

Liquidity risk is the risk that the Group will have insufficient liquidity to meet its liabilities as they fall due, or that the Group can only meet such liabilities at a prohibitive price. A lack of available liquid resources would constrain the Group's ability to pursue its strategic objectives.

The Group has a prudent liquidity position, with funding appropriately in excess of its loans and advances to customers. The Group holds a significant amount of high quality liquid assets in the form of cash placed on deposit with the Bank of England, UK Gilts and Sterling Treasury Bills. The Group monitors liquidity risk using a variety of measures, including regular stress testing and cash flow monitoring, and reporting to both the Group and divisional boards. Despite these measures, there can be no assurance that the Group would always have sufficient liquidity such that the Group's results of operations, financial condition and cash flows could not be materially and adversely affected.

Disruption and volatility in the global financial markets could have a material adverse effect on the Group, including its ability to access capital and liquidity on financial terms acceptable to it. The Group's cost of obtaining funding is directly related to the prevailing market interest rates and to its credit spreads. Increases in interest rates and the Group's credit spreads can significantly increase the cost of its funding. Changes in the Group's credit spreads are market-driven, and may be influenced by market perceptions of its creditworthiness. Changes to interest rates and the Group's credit spreads occur continuously and may be unpredictable and highly volatile.

Although central banks around the world have made coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or swap lines), it is not known how long central bank schemes will continue or on what terms.

The availability of central bank facilities for UK financial institutions, to the extent that they provide the Group with access to more attractive funding than other sources, reduces the Group's reliance on retail or wholesale markets. To the extent that the Group makes use of central bank facilities, any significant reduction or withdrawal of those facilities would increase the Group's funding costs.

In addition, other financial institutions who have relied significantly on governmental support to meet their funding needs will also need to find alternative sources of funding and, in such a scenario, the Group expects to face increased competition for funding, particularly retail funding which the Group utilises. This competition could further increase the Group's funding costs and so adversely impact its results of operations and financial position. The Group's cost of funding could also increase as a result of an increase in interest rates by the Bank of England.

Each of the factors described above – the persistence or worsening of adverse market conditions, and the lack of availability, or withdrawal, of such central bank schemes or an increase in base interest rates – could have a material adverse effect on the Group's ability to access liquidity and its cost of funding (whether directly or indirectly).

Legal and Regulatory Risk

The Group operates in a highly regulated environment. Following the banking crisis of late 2008, the banking and financial services sector, and the regulatory framework in which it operates, has been under heavy scrutiny.

The nature, effect and impact of future changes (whether currently proposed or actual) in laws, regulations and regulatory policies (including in relation to taxation) are not predictable and are beyond the Group’s control, and changes in such laws, regulations and regulatory policies could affect the way the Group conducts business and manages capital and liquidity and may have an adverse effect on the Group’s financial condition, results of operations and profitability.

Further details of the legal and regulatory risks to which the Group is subject are set out below:

Capital requirements

The Group is subject to capital adequacy requirements adopted by the Prudential Regulatory Authority (“**PRA**”) on a consolidated basis. Any failure by the Group to comply with such requirements may result in the Group being subject to administrative actions or sanctions which may affect its ability to fulfil its obligations.

Between 2010 and 2014, the Basel Committee on Banking Supervision issued a number of fundamental reforms to its regulatory capital framework intended to strengthen minimum capital requirements (referred to as “**Basel III**”). The European Union has implemented Basel III through the Capital Requirements Directive IV and Capital Requirements Regulation (“**CRD IV / CRR**”) legislative package. CRD IV / CRR came into effect on 1 January 2014, with particular requirements to be fully effective by 2019 and transitional arrangements to 2021. CRD IV / CRR substantially reflects the Basel III capital and liquidity standards and facilitates the applicable implementation timeframes. However, certain issues continue to remain under discussion and certain details remain to be clarified in further binding technical standards to be issued by the European Banking Authority. In the UK, the PRA and the Financial Conduct Authority (“**FCA**”) have issued new rules and supervisory statements in connection with the implementation of CRD IV / CRR.

CRD IV / CRR includes, among other things, the requirement for institutions to comply with a leverage ratio (in addition to the risk-based regulatory capital requirements to which they are currently subject) and for institutions to build counter-cyclical capital buffers that may be drawn upon in stress scenarios. Under CRD IV / CRR, banks are required to meet two new liquidity standards, comprising the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**"), which are aimed to promote (i) the short-term resilience of banks' liquidity risk profiles by ensuring they have sufficient high quality liquid assets to survive a significant stress scenario, and (ii) a longer-term resilience by creating incentives for banks to fund their activities with more stable sources of funding on an on-going basis.

In June 2015, the PRA set out its final rules relating to the implementation of the European Commission's delegated act concerning the LCR. In the UK, the LCR is being phased in from 1 October 2015, from which date an 80 per cent. requirement applies, rising to 90 per cent. on 1 January 2017 and intended to rise to 100 per cent. on 1 January 2018, in line with CRD IV / CRR requirements. The PRA has also issued a supervisory statement, together with certain further guidance material, concerning the reporting of LCR data, with which firms have been expected to comply from 1 October 2015.

The NSFR, which is defined as the amount of available stable funding relative to the amount of required stable funding, will be implemented on 1 January 2018. A bank will be required to hold a NSFR of at least 100 per cent. on an on-going basis and to report its NSFR quarterly.

The Group has disclosed its capital ratios under the transitional and fully loaded arrangements set out in CRD IV / CRR which came into force on 1 January 2014, and does not expect to be materially impacted by the full implementation of CRD IV / CRR. However, certain details remain to be clarified in further binding technical standards in relation to CRD IV / CRR, and the PRA may impose more stringent capital requirements on UK banks than those required by Basel III and CRD IV / CRR in the future.

In addition to Basel III and CRD IV / CRR, regulators in the UK and worldwide have produced a range of proposals for legislative and regulatory changes which could force the Group to comply with certain operational restrictions or take steps to raise further capital, or which could increase the Group's expenses, or otherwise adversely affect the Group's operating results, financial condition and prospects. These include:

- the introduction of recovery and resolution planning requirements (popularly known as "living wills") for banks and other financial institutions as contingency planning for the failure of a financial institution that may affect the stability of the financial system, as set out in the PRA's final rules on recovery and resolution planning which came into force on 1 January 2014;

- implementation of an EU-wide framework for the recovery and resolution of credit institutions and investment firms under the Bank Recovery and Resolution Directive, as set out in further detail in the risk factor entitled "*Risks relating to the Banking Act 2009*";

- the introduction of more regular and detailed reporting obligations;

- proposed revisions to the approaches for determining trading book capital requirements and banking book risk-weighted assets from the Basel Committee; and

- proposed revisions to the standardised approach to credit risk by the Basel Committee to address certain weaknesses identified (which include an over-reliance on external credit ratings, a lack of risk sensitivity and misalignment of treatment with exposures risk weighted under the internal ratings-based approach to credit risk).

Effective management of the Group's capital position is important to its ability to operate its business. Any future change that limits the Group's ability to manage its balance sheet and capital resources effectively, or to access funding on commercially acceptable terms, could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Other forms of legal and regulatory risk

Firms carrying on regulated consumer credit activities must comply with the relevant provisions of FSMA and related secondary legislation, the FCA's Consumer Credit Sourcebook ("**CONC**") and the provisions of the Consumer Credit Act 1974 and related secondary legislation which have been retained following the transfer of the regime from the Office of Fair Trading to the FCA in accordance with provisions under the Financial Services Act 2012. Failure to comply with prescriptive requirements regarding the form and content of credit agreements and the issuance of certain post-contract documentation may render an agreement unenforceable. In addition, failure to comply with the FCA's CONC rules may lead to regulatory enforcement action, which in some cases could affect a firm's ability to recover relevant debts. The Financial Services Act 2012 also provides for formalised co-operation to exist between the FCA and the Financial Ombudsman Service (which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses), particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes.

On 16 June, 2010, the Chancellor of the Exchequer announced the creation of the Independent Commission on Banking (the "**ICB**"), chaired by Sir John Vickers. The ICB was asked to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition, and to make recommendations to the Government.

The ICB gave its recommendations on 12 September 2011 and proposed: (i) implementation of a retail ring fence, (ii) increased capital requirements and (iii) improvement of competition. The ICB's recommendations were broadly endorsed by the UK Government and on 18 December 2013, the Banking Reform Bill (as amended) received Royal Assent in the House of Lords as the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"). Among other things, the Banking Reform Act:

- provides HM Treasury and the PRA powers to implement the ICB recommendations;

- introduces a 'senior managers' regime and a 'certification' regime applying to other bank staff whose actions or behaviour could significantly harm the bank, its reputation or its customers, as well as giving the FCA and the PRA the power to create a new set of banking conduct rules applying to a wider population of bank staff, replacing the existing approved persons regime established under FSMA (as amended by the Financial Services Act 2012). The regime entered into force on 7 March 2016;

- introduces a new criminal offence for reckless misconduct in the management of a bank, which also came into force on 7 March 2016;

- establishes a new payment systems regulator, which became fully operational on 1 April 2015;

- amends the Banking Act 2009 to include a bail-in stabilisation option forming part of the special resolution regime (see the Risk Factor entitled "*Risks relating to the Banking Act 2009* " for further detail); and

- introduces a retail ring fence for certain large UK banking groups. The PRA published its near-final rules in October 2015, with further amendments to the rules published in July 2016, and the FCA published its near-final rules in March 2016. These provisions are anticipated to come into force on 1 January 2019.

While the Group is not (and does not currently expect to be) subject to the requirement to implement a retail ring fence, the ring fencing requirements will have a material impact on the UK banking landscape, including, potentially, on the sources of funding available to the Group and its relationship with other financial institutions which are subject to ring fencing requirements.

In addition, the resolution of a number of issues, including regulatory investigations and reviews and court cases, affecting the UK financial services industry could have an adverse effect on the Group's operating results, financial condition and prospects, or its relations with its customers and potential customers.

The uncertainty over the exact details of such proposed changes, and the costs associated with compliance with both presently anticipated changes to the regulatory environment, and potential future changes, all have the potential to impact on the Group's earnings. Changes in supervision and regulation, in particular in the UK, could materially affect the Group's business, the products and services it offers, the value of its assets and its ability to respond to the requirements of the relevant UK regulatory authorities.

The Group monitors regulatory developments and engages in dialogue with regulatory authorities on a regular basis and continues to maintain a conservative model with a strong, well-capitalised balance sheet, and believes it is well placed to react to regulatory change. Each of the Group's regulated businesses has a dedicated compliance officer who is responsible for supporting the business in meeting its regulatory compliance objectives and for executing risk-based monitoring programmes to confirm compliance. The activities of these compliance professionals are co-ordinated and overseen on a Group-wide basis by the Group Head of Compliance to whom they report.

Despite these measures, there can be no assurance that the Group's financial performance will not be adversely affected should unforeseen events relating to legal and regulatory risk arise in the future.

The Group cannot predict the timing or form of any current or future regulatory or law enforcement initiatives and no assurance can be given as to the impact of any possible change to the law (including any change in regulation which may occur without a change in primary legislation), administrative practice or tax treatment after the date of this Prospectus. Similarly, no assurance can be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes.

As the Group offers products to customers in a number of industries which are regulated, any changes in the regulatory environment for those industries may also have a material adverse effect on the Group's business, profitability, financial condition and prospects. For example, changes in regulation affecting the businesses of customers to which the Group provides financing could potentially negatively impact the ability of such customers to service their loans and so reduce the value of the underlying asset.

Financial Services Compensation Scheme

Close Brothers Limited, by virtue of being a FCA regulated deposit taker, contributes to the Financial Services Compensation Scheme ("**FSCS**") which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs and individual institutions make payments based on their level of market participation.

Whilst it is anticipated that the substantial majority of any compensation claims will be repaid wholly from recoveries from the institutions concerned, in the event of a shortfall, the FSCS may place additional levies on all FSCS participants, which may be in significant amounts and have a material impact on the Group's profits. For example, in order to meet its obligations to the depositors of a number of failed institutions the FSCS, in 2008, borrowed amounts from HM Treasury. It is anticipated that these borrowings will be repaid substantially from the realisation of the assets of the failed institutions. However, the FSCS estimates that the assets of these failed institutions are insufficient and is recouping the shortfall in the form of additional levies based on the level of market participation of individual institutions.

Further reform initiatives may also result in changes to the FSCS which could result in additional costs and risks for the Group. It is possible that future policy of the FSCS and future levies on the firms regulated by the FCA or the PRA may differ from those at present. In April 2014, the recast EU directive on deposit guarantee schemes ("**DGSD**") was adopted and was published in the Official Journal on 12 June 2014. The DGSD requires deposit guarantee schemes to be ex-ante (before the event) funded and for their available financial means to reach a minimum target level of 0.8 per cent. of the covered deposits of their members by 2024. The DGSD was transposed into UK law by the Deposit Guarantee Scheme Regulations 2015, which came into force on 26 March 2015 and 3 July 2015. The PRA has now finalised its rules implementing the recast DGSD including, amongst other things, a revised compensation limit of £75,000 and an extension of deposit protection to certain categories of depositors not previously protected. In a consultation that closed on 16 December 2016, the PRA proposed to restore this compensation limit to £85,000 on 30 January 2017. The Group may incur additional costs and liabilities as a result of such changes, or any further related changes which may be made, which may adversely affect its operating results, financial condition and prospects.

Conduct risk

The Group is exposed to various forms of conduct risk in its operations, including the alleged misselling of financial products, potentially resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions.

In addition, the Group is exposed to inherent risks such as outsourcing of customer service and product delivery via third parties that may not have the same level of control, oversight and culture as the Group (potentially resulting in unfair outcomes for customers which could lead to reputational damage and regulatory investigations), and poor governance of colleagues' incentives and rewards and approval schemes, which drive unfair customer outcomes. These can lead to remediation and regulatory intervention/enforcement (including fines) and ineffective management and oversight of legacy conduct issues.

While the Group has implemented a number of policies, governance structures and reporting mechanisms in order to help mitigate these risks, no assurance can be given that the strategy and framework will be effective and will not have an adverse effect on the Group's results of operations, financial conditions or prospects.

Legal and compliance risk

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

- certain aspects of the Group's business may be determined by the Bank of England, the FCA, the PRA, HM Treasury, the Financial Ombudsman Service or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Financial Ombudsman Service, with what is fair and reasonable in the Ombudsman's opinion;

- the Group holds accounts for entities that might be or are subject to interest from various regulators, including the UK's Serious Fraud Office, those in the U.S. and others. The Group is not aware of any current investigation into the Group as a result of any such enquiries, but cannot exclude the possibility of the Group's conduct being reviewed as part of any such investigations;

- the Group may be liable for damages to third parties harmed by the conduct of its business; and

- the Group is subject to rules and regulations related to the prevention of money laundering and terrorist financing.

In recent years there have been several industry-wide issues in which the then FSA intervened directly, such as the misselling of payment protection insurance ("**PPI**"). While the impact on the Group of PPI misselling claims and complaints has not, to date, been significant, the FCA may identify future industry-wide misselling or other issues that could affect the Group. This may lead from time to time to significant direct costs or liabilities (including in relation to misselling) and/or changes in the practices of the Group's businesses which may have an adverse effect on the Group's business, financial condition and/or results of operations.

The Financial Services and Markets Act 2000 (Designated Consumer Bodies) Order 2013 (the "**Order**") was made on 16 December 2013 and came into force on 1 January 2014. The Order designates the National Association of Citizens Advice Bureaux, the Consumers' Association, the General Consumer Council for Northern Ireland and the National Federation of Self Employed and Small Businesses as consumer bodies that may submit a super-complaint to the FCA on behalf of consumers of financial services where it considers that a feature, or a combination of features, of the market for financial services in the UK is seriously damaging the interests of these customers. Complaints about damage to the interests of individual consumers will continue to be dealt with by the FOS. If a super-complaint is made against the Group by a designated consumer body under this Order, any response published or action taken by the FCA could have a material adverse effect on the Group's business, results of operations and prospects.

While the Group continues to invest significantly in both staff and operating systems to ensure the Group remains well placed to respond to changes in regulation, the anti-money laundering and anti-terrorist financing laws and regulations to which the Group is subject have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

Although the Issuer is not currently aware of any material failure to comply with applicable laws, regulations, rules and other conduct guidance, were such a failure to occur it could result in investigations, enforcement or licensing actions that may lead to fines or suspension or termination of the Group's licences. In addition, such failure to comply, revocation of a licence or any actions by the Group may damage the reputation or increase the compliance risk and conduct risk for the Group. Any of these developments could have a material adverse effect on the Group's ability to conduct business and on the Group's financial condition, financial returns or results of operations.

Further, the Group faces risks associated with an uncertain and changing legal and regulatory environment. At both a national and European level, existing laws and regulations may be amended, or new laws and regulations may be introduced, which could affect the Group by:

- resulting in the need for increased operational and compliance resources to ensure compliance with the new or amended laws and regulations;
- restricting the customer base to which the Group's products or services can be offered; or
- restricting the products or services which the Group can provide.

Any of these results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, changes to the regulatory authorities' approaches and expectations may result in increased scrutiny of the Group's compliance with existing laws and regulation, which may further result in the Group needing to change its internal operations, at increased cost. For example, the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue and the FCA may continue to focus on retail conduct risk issues as well as conduct of business activities through its supervision activity which could result in higher expectations, or a different interpretation, of what is required to demonstrate compliance with conduct of business standards in certain markets.

Failure to comply with the wide range of laws and regulations which apply to the Group could have a number of adverse consequences for the Group, including the risk of:

- substantial monetary damages, fines or other penalties, the amounts of which are difficult to predict and may exceed the amount of any provisions set aside to cover such risks, in addition to potential injunctive relief;

- regulatory investigations, reviews, proceedings and enforcement actions;

- being required to amend sales processes, product and service terms and disclosures, withdraw products or provide redress or compensation to affected customers;

- the Group either not being able to enforce contractual terms as intended or having contractual terms enforced against it in an adverse way;

- civil or private litigation (brought by individuals or groups of individuals/claimants) in the UK and other jurisdictions (which may arise out of regulatory investigations and enforcement actions);

- criminal enforcement proceedings; and

- regulatory restrictions on the Group's business,

any or all of which (i) could result in the Group incurring significant costs, (ii) may require provisions to be recorded in the Group's financial statements, (iii) could negatively impact future revenues from affected products and services, and (iv) could have a negative impact on the Group's reputation and the confidence of customers in the Group, as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy. Regulatory restrictions could also require additional capital and/or liquidity to be held. Any of these risks, should they materialise, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Operational and Fraud Risk

Operational risk is the risk of loss or other material adverse impact resulting from inadequate or failed internal processes, people or systems, or from external events, and is inherent in all of the Group's businesses.

The Group has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner across the Group. The Group has adopted a formal approach to operational risk event reporting which involves identification of an event, assessment of its materiality, analysis of the cause, establishment of remedial action required and escalation to divisional or Group level risk committees for monitoring of implementation.

Despite the Group’s risk management framework, there can be no assurance that the Group’s financial performance will not be adversely affected should unforeseen events relating to operational risk arise in the future.

The Group is subject to a number of operational risks which may affect business continuity. Whilst business continuity plans are in place and regularly tested, there can be no assurances that the Group’s business, results of operations and future prospects will not be adversely affected by unforeseen events impacting continuity of operations in the future. Such risks include disruption to the Group’s infrastructure caused by terrorist acts, other acts of war, damage to the Group’s properties (such as by flood or fire), failing public infrastructure systems, pandemic and people risk (as described further in “*People risk*” below).

Internal and external persons may target the Group’s systems or information to perpetrate fraud. Operational processes are designed to prevent, detect and respond to fraud attempts. Anti-fraud controls are continuously enhanced following a risk-based approach to limit the potential impact on the Group and its customers. However, occurrence of fraud could expose the Group to risk of loss, adverse regulatory consequences or litigation, each of which could have a material adverse effect on the business, results of operations and prospects of the Group.

People Risk

The calibre, quality and expertise of employees is critical to the success of the Group. The Group’s financial performance could be adversely affected by the loss of the services of certain key teams or individuals. The ability of the Group to attract, motivate and retain key personnel is critical to the Group's prospects in the medium and long-term.

In order to manage these risks, the Group seeks to create an open and supportive working environment for its employees. Opportunities for training are offered to assist with the professional development of employees. Reward schemes, incentive schemes and benefits offerings are regularly reviewed to ensure that the Group is successful in attracting, motivating and retaining the calibre of employees necessary to meet its objectives, while aligning such schemes with risk, compliance and conduct risk objectives.

Despite these measures, there can be no assurances that the Group will continue to be able to attract and retain certain key teams and individuals. A failure to attract, or the loss of, such key personnel could adversely affect the Group’s businesses, results of operations and financial position.

Technology, Cyber-Security and Data Processing Risk

A number of the Group’s businesses are highly reliant on their IT infrastructure in their daily operations. The ability to continue to compete in many of the markets in which the Group operates necessitates an ability to respond to new technology. Failure to keep up to date in a number of the Group’s businesses could lead to a material impact on the Group’s earnings. All of the Group’s businesses rely on the existence of secure and stable technological platforms.

Each of the Group’s businesses continually invest in their IT platforms to ensure they are up to date and fit for purpose for the markets in which they operate. Additionally, disaster recovery plans are in place with alternative business locations maintained to enable the businesses to respond in a timely manner to a disaster event. The Group’s overall exposure is further mitigated by individual businesses maintaining discrete IT systems rather than group wide IT platforms. Despite these measures, there can be no assurances that the Group’s businesses will not be adversely affected by unforeseen events relating to technology risk in the future.

The secure transmission of confidential information is a critical element of the Group's operations. The UK Government and Bank of England have highlighted cyber threat as an issue across the financial sector. The Group’s audit and risk functions have carried out cyber threat reviews which included testing its internal controls framework and reviewing planned investment on cyber risk to ensure it remains well placed to detect and resist threats. However, the Group cannot be certain that its existing security measures will prevent security breaches including break-ins, viruses or disruptions. Persons that circumvent the security measures could use the Group's or its clients’ confidential information wrongfully which could expose the Group to a risk of loss, adverse regulatory consequences or litigation, each of which could have a material adverse effect on the business, results of operations and prospects of the Group.

Third party vendors provide key components of the Group’s business infrastructure such as loan and deposit servicing systems, internet connections and network access. Any problems caused by these third parties, including as a result of their not providing the Group their services for any reason or their performing their services poorly, could adversely affect the Group’s ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

The Group is subject to regulation regarding the use of personal customer data. The Group processes personal customer data (including name, address and bank details) as part of its business, some of which may be sensitive personal data, and therefore must comply with strict data protection and privacy laws and regulations. Such laws restrict the Group’s ability to collect and use personal information relating to customers and potential customers including the use of that information for marketing purposes. The Group seeks to ensure that procedures are in place to ensure compliance with the relevant data protection regulations by its employees and any third party service providers, and also implements security measures to help prevent cyber-crime. Notwithstanding such efforts, the Group is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, stolen or processed in breach of data protection and privacy laws and regulations. If the Group or any of the third party service providers on which it relies fails to store or transmit customer information in a secure manner, or if any loss of personal customer data were otherwise to occur, the Group could be subject to investigative or enforcement action by relevant regulatory authorities and could face liability under data protection and privacy laws and regulations. The Group could also be targeted by other forms of fraudulent activity. Any of these events could also result in the loss of the goodwill of its customers and deter new customers which could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

On 14 April 2016, the European Parliament formally approved the European Commission’s draft EU Data Protection Regulation, which will come into force in May 2018. The General Data Protection Regulation introduces substantial changes to the EU data protection regime. It will impose a substantially higher compliance burden on the industry and impair the Group's ability to use data, including through expanding the requirement for informed opt-in consent by customers to the processing of their personal data, granting customers a "right to be forgotten", imposing restrictions on the use of personal data for profiling purposes, imposing disclosure requirements of data sources to customers and increasing the maximum levels of fines for compliance failures from its current level in the UK of £500,000 to 2 per cent. of annual turnover or €20 million (whichever is greater), among other requirements. The Group may face increased compliance costs to comply with these new requirements.

Interest Rate Risk

Interest income is a substantial proportion of the Group's revenues. Movements in interest rates have the potential to materially affect the Group's earnings.

Interest rate risk exists in interest-bearing assets (or liabilities), such as loans, due to the possibility of a change in the assets value, or income, resulting from a change in interest rates. The Group's policy is to match fixed and variable interest rate liabilities and assets, naturally where possible or by utilising interest rate swaps where necessary to secure the margin on its loans and advances to customers.

Despite these measures, there can no assurance that the Group's financial performance will not be adversely affected by unforeseen events relating to interest rate risk in the future.

Increases in interest rates may reduce the volume of loans the Group originates. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans. Increases in interest rates may reduce the value of the Group's financial assets and reduce gains or require the Group to record losses on sales of loans or securities.

If interest rates decrease, while this may reduce the Group's funding costs, it is likely to adversely impact the income the Group receive arising from the Group's investment in securities as well as loans with similar maturities.

Securities/Derivative Trading Risk

The Group's securities businesses are exposed to market movements deriving from trading in equity and fixed income securities. Senior management is closely involved in risk management processes which are also monitored at Group level.

There are controls, supplemented by cash limits, on individual large or slow moving equity or fixed income positions. Real time controls on the size and risk profile of trading books and of individual stocks within these are maintained. Treasury operations do not trade actively in money market instruments although they are held for liquidity purposes. Despite these measures, there can be no assurance that adverse market movements in the future will not have an adverse effect on the Group's financial performance in connection with the trading in equity and fixed income securities.

Foreign Exchange Risk

The Group recognises the extent to which its financial reporting (primarily balance sheet and profit and loss account) is affected by exchange rate movements. Translating foreign assets and liabilities from foreign to domestic currency may not affect the Group's cash flows, but may have an impact on the Group's reported earnings. The majority of the Group's activities are located in the British Isles and are transacted in sterling.

The Group does, however, have material currency assets and liabilities primarily due to the Banking division's EUR lending and deposit taking activities. The foreign exchange risk primarily arises from lending in foreign currencies where there is a net mismatch in balance sheet assets and liabilities for non-base currencies. In addition, there is a profit translation risk whereby earning reserves created in non-base currency may bring volatility to the profit and loss account due to exchange rate movements, if left unmanaged.

The Group's policy is to match currency assets and liabilities as closely as possible, by value and term, or with derivatives where necessary and to repatriate profits to GBP on a regular basis.

Failure to adequately manage fluctuations in the exchange rate between currencies may negatively affect the Group's earnings and value of the Group's assets and securities.

Infrastructure failure

Events such as electricity supply failures, the shut-down of transport systems due to inclement weather (such as snow or extreme heat) or postal, train/tube or other strikes have a negative impact on the ability of most firms, including the Group, to do business. The regular occurrence of such events or timing of the occurrence of such events could have an adverse effect on the Group's operations.

Pandemic Risk

A pandemic has the potential to materially impact the Group's ability to maintain service at levels acceptable to its customers and may impact on financial performance. The Group has established plans to react to a potential pandemic and keeps these plans under constant review. However, there can be no assurance that such contingency plans would be effective, and the Group's businesses, results of operations and financial position could be adversely affected.

Terrorist acts, other acts of war, geopolitical or other such events

Terrorist acts, other acts of war or hostility, geopolitical or other such events and responses to those acts/events may create economic and political uncertainties, which could have a material adverse impact on UK and global economic conditions generally, and more specifically on the business and results of the Group in ways that cannot be predicted.

Integration of Acquisitions

The Group makes acquisitions where it considers that such transactions will enhance its services and increase the value of the business in the long term. The Group has completed a number of acquisitions in the past and it may make further acquisitions of businesses in the future. The corresponding risks may include delays and challenges which could arise in the process of integrating the acquired businesses into the Group. There can be no assurance that the Group has anticipated all problems associated with the acquired businesses, or that all potential losses associated with it or with any businesses which may be acquired by the Group may come to light prior to the expiration of any warranty and indemnity protections. The Group's businesses, results of operations and financial position could be adversely affected should there be any failure in the Group's due diligence of the operating and financial condition of these acquired businesses, or their integration into the Group's operations.

Structural Subordination and Dependencies

The Issuer is a holding company and therefore many of the Group's risks reside in Subsidiaries and affiliated companies. The Issuer's ability to meet its financial obligations is dependent upon the availability of cash flows from members of the Group through dividends, inter-company loans and other payments.

Claims by the creditors of the Issuer's Subsidiaries may adversely affect the ability of such Subsidiaries to support the Issuer in fulfilling its obligations. The Issuer's obligation to make payments on the Notes issued by it is solely an obligation of the Issuer and will not be guaranteed by any of its Subsidiaries or affiliates. Claims by the creditors of the Issuer's Subsidiaries will rank ahead of the claims of the Noteholders in relation to the assets of such Subsidiaries.

Competition Risk

The market for UK financial services is highly competitive, and such competition may be expected to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and/or other factors. If financial markets remain unstable, financial institution consolidation may accelerate. The Group's financial condition and results of operations may be materially and adversely affected by competition, including declining lending margins or competition for savings. If the Group is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new and retain existing deposits, which could materially and adversely affect its financial position and results of operations.

Pension Risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is focussed upon the risk to the Group's financial position which arises from the need to meet its pension scheme funding obligations. In the event of a shortfall, the Group may be required, or may choose, to make additional payments to the Group's pension schemes which, depending on the amount, could have a material adverse effect on the Group's business, results of operations and prospects.

The UK Pensions Regulator has the power to issue a financial support direction to companies within a group in respect of the liability of employers participating in the UK defined benefit pension plan where that employer is a service company, or is otherwise "insufficiently resourced" (as defined for the purposes of the relevant legislation). Such a financial support direction could require the companies to guarantee or provide security for the pension liabilities of those employers, or could require additional amounts to be paid into the relevant pension schemes in respect of them.

The Group's defined benefit pension scheme was closed to new entrants in August 1996 and to future accrual during 2012. The scheme's most recent triennial valuation at 31 July 2015 showed that the scheme was fully funded and no further contributions are scheduled.

RISKS RELATED TO THE NOTES GENERALLY

Set out below is a description of certain risks relating to the Notes generally:

The obligations of the Issuer in respect of the Notes are unsecured and subordinated.

The Notes constitute unsecured and subordinated obligations of the Issuer.

On a winding-up or administration of the Issuer, all claims in respect of the Notes will rank junior to the claims of all Senior Creditors (as defined in "*Terms and Conditions*" below) of the Issuer. If, on a liquidation 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 it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, Noteholders will lose some (which may be substantially all) of their investment in the Notes.

For the avoidance of doubt, the holders of the Notes shall have no claim in respect of the surplus assets (if any) of the Issuer remaining in any liquidation following payment of all amounts due in respect of the liabilities of the Issuer.

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

The Notes do not contain events of default and the remedies available to Noteholders under the Notes are limited.

The terms of the Notes do not provide for any events of default. Noteholders may not at any time demand repayment or redemption of their Notes, although in a winding-up or administration the Noteholders will have a claim for an amount equal to the principal amount of the Notes plus any accrued and unpaid interest on such date. 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 in the event of any non-payment of principal or interest under the Notes, subject to certain conditions as described under Condition 10, is that the Trustee, on behalf of the Noteholders may, at its discretion, or shall at the direction of the holders of at least 25 per cent. of the aggregate principal amount of the outstanding Notes subject to applicable laws, institute proceedings for the winding-up of the Issuer and/or prove for any payment obligations of the

Issuer arising under the Notes in any winding-up or other insolvency proceedings in respect of such non-payment.

The remedies under the Notes are more limited than those typically available to the Issuer's unsubordinated creditors. For further details regarding the limited remedies of the Trustee and the Noteholders, see Condition 10.

There is no limit on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee.

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Noteholders during a winding-up or administration or resolution of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes. The Issuer may also issue, in the future, subordinated liabilities which rank senior to the Notes.

Risks relating to the Banking Act 2009

Under the Banking Act 2009 (the "**Banking Act**") substantial powers are granted to HM Treasury, the PRA, the FCA and the Bank of England (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers can be exercised, as applicable, by the Authorities in respect of a UK bank, UK building society, UK investment firm or UK recognised central counterparty (each a "**relevant entity**") in circumstances in which the Authorities consider its failure has become likely and if certain other conditions are satisfied (depending on the relevant power) for example, to protect and enhance the stability of the financial system of the UK. Certain of these powers may also be used in respect of a UK incorporated company which meets certain conditions and is in the same group as a relevant entity, an EU incorporated credit institution or investment firm or a third country incorporated credit institution or investment firm (a "**UK banking group company**") (such as the Issuer).

The SRR consists of five stabilisation options and two special insolvency procedures (bank administration and bank insolvency) which may be commenced by HM Treasury, the Bank of England, the PRA or Secretary of State, as the case may be. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly owned by the Bank of England; (iii) transfer of all or part of the business of the relevant entity to an asset management vehicle owned and controlled by the Bank of England; (iv) writing down certain claims of unsecured creditors of the relevant entity (including Notes) and/or converting certain unsecured debt claims (including Notes) to equity, (the "**bail-in option**"), which equity could also be subject to any cancellation, transfer or dilution; and (v) temporary public ownership (nationalisation) of all or part of the relevant entity or its UK holding company. In each case, the Authorities have wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retroactive effect) to enable stabilisation powers under the Banking Act to be used effectively. These powers, including the bail-in option, must be exploited to the maximum extent possible before financial public support is used.

In addition, the Banking Act provides the Authorities with the power to permanently write-down (including to zero) or convert capital instruments, such as the Notes, into equity at the point of non-viability and before any other resolution action is taken. Any shares issued to holders of the Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

The point of non-viability under the Banking Act is the point at which the relevant Authority determines that the relevant entity or UK banking group company meets certain conditions (but no resolution action has yet been taken) or that the relevant entity or, in certain circumstances, group will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down or converted.

The paragraphs below set out some of the possible consequences of the exercise of the powers under the SRR.

The SRR may be triggered prior to insolvency of the Issuer.

The purpose of the stabilising 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. Accordingly, the relevant stabilisation options may be exercised if (a) the relevant Authority is satisfied that a relevant entity is failing, or is likely to fail, (b) following consultation with the other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will result in the condition referred to in (a) ceasing to be met and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated. In relation to a UK banking group company (such as the Issuer), the stabilisation options may be exercised against such UK banking group company if the stabilisation conditions referred to in (a) and (b) above are satisfied in relation to a relevant entity with the same group and the condition referred to in (c) is satisfied in relation to the UK banking group company.

Various actions may be taken in relation to the Notes without the consent of the Noteholders.

If the stabilisation options were exercised under the SRR in respect of the Issuer, HM Treasury or the Bank of England may exercise extensive powers, including share transfer powers (applying to a wide range of securities), property transfer powers (including powers for partial transfers of property, rights and liabilities subject to certain protections in respect of the Issuer) and resolution instrument powers (including powers to mark special bail-in provisions). Exercise of these powers could involve taking various actions in relation to any securities issued by the Issuer (including the Notes) without the consent of the Noteholders, including (among other things):

- transferring the Notes notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance

- delisting the Notes;

- writing down the principal amount of the Notes (including to zero) and/or converting the Notes into another form or class (which may include, for example, conversion of the Notes into equity securities);

- modifying any interest payable in respect of the Notes, the maturity date or the dates on which any payments are due, including by suspending payment for a temporary period; and/or

- disapplying certain terms of the Notes including disregarding any termination or acceleration rights or events of default under the terms of the Notes which would be triggered by the exercise of the powers and certain related events.

The taking of any such actions could 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. 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 would thereby recover compensation promptly or equal to any loss actually incurred.

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) will result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that it will be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration 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 would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Prospectus, the relevant Authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

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

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

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

Noteholders may not require the redemption of the Notes prior to their maturity.

The Notes mature on 24 January 2027. The Issuer is under no obligation to redeem the Notes at any time prior thereto and the Noteholders have no right to require the Issuer to redeem or purchase any Notes at any time. Any redemption of the Notes and any purchase of any Notes by the Issuer will be subject always to the prior approval of the Supervisory Authority and to compliance with prevailing Regulatory Capital Requirements, and the Noteholders may not be able to sell their Notes in the secondary market (if at all) at a price equal to or higher than the price at which they purchased their Notes. Accordingly, investors in the Notes should be prepared to hold their Notes for a significant period of time.

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

Subject to the prior approval of the Supervisory Authority and to compliance with prevailing prudential requirements, the Issuer may, at its option, redeem all (but not some only) of the Notes at any time at their principal amount plus any accrued and unpaid interest on such date, upon the occurrence of a Tax Event or a Capital Disqualification Event. The Issuer may also, in its sole discretion but subject to certain conditions, redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any accrued and unpaid interest on such 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 at any of the times or 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.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes on or after the Reset Date if the Issuer’s funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

The terms of the Notes may be modified, or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances, subject to certain restrictions.

Following the occurrence of a Tax Event or a Capital Disqualification Event, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (as applicable), Compliant Notes, without the consent of the Noteholders.

Compliant Notes must have terms not materially less favourable to holders than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial adviser of international standing. However, there can be no assurance that, due to the particular circumstances of a holder of Notes, such Compliant Notes will be as favourable to each investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Compliant Notes are not materially less favourable to holders than the terms of the Notes.

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

The Notes will initially accrue interest at a fixed rate of interest to, but excluding, the Reset Date. From, and including, the Reset Date, however, the interest rate will be reset to the Reset Interest Rate (as described in Condition 5(c)). This reset rate could be less than the Initial Interest Rate, which could affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

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

At any time, the Trustee may (subject to the approval of the Supervisory Authority) agree to the substitution in place of the Issuer as the principal debtor under the Notes of the Issuer's Successor in business or the Issuer's Holding Company, subject to the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Noteholders and to certain other conditions set out in the Trust Deed being complied with.

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

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

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

Meetings of Noteholders and modification

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

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

Change of law

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

Legality of purchase

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

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) 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 Notes under any applicable risk-based capital or similar rules.

A Noteholder’s actual yield on the Notes may be reduced from the stated yield by transaction costs.

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

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

RISKS RELATED TO THE MARKET GENERALLY

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

The secondary market generally

The Notes represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market does develop, it may not be very liquid and may be sensitive to changes in financial markets. In particular, holdings in the Notes upon issue may be concentrated as they will be purchased by a limited number of initial investors, one or more of whom may hold a significant proportion of the total issuance. If the initial investors decide to sell any Notes and a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount. Illiquidity may have a severely adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition of the Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable to pay interest on the Notes in full, or of the Notes being subject to loss absorption under an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control.

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

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

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

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

Although applications have been made for the Notes to be listed on the regulated market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Inflation risk

The value of future payments of interest and principal may be reduced as a result of inflation as the real rate of interest on an investment in the Notes will be reduced at rising inflation rates and may be negative if the inflation rate rises above the nominal rate of interest on the Notes.

Credit ratings may not reflect all risks

The Notes are expected, on issue, to be rated A3 and A- by Moody's Investors Service, Inc. and Fitch Ratings Ltd. respectively and one or more other independent credit rating agencies may from time to time assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the FCA shall be incorporated in, and form part of, this Prospectus:

- the information set out at the following pages of the annual report of the Issuer for the financial year ended 31 July 2016, including the auditor's report and audited consolidated annual financial statements for the financial year ended 31 July 2016 of the Issuer:

Financial Highlights	Page 1
Strategy and Key Performance Indicators	Pages 12 to 13
Financial Overview	Pages 14 to 19
Banking	Pages 20 to 23
Securities	Pages 24 to 25
Asset Management	Pages 26 to 27
Consolidated income statement	Page 87
Consolidated statement of comprehensive income	Page 88
Consolidated balance sheet	Page 89
Consolidated statement of changes in equity	Page 90
Consolidated cash flow statement	Page 91
Notes to the consolidated financial statements	Pages 94 to 134
Glossary	Page 135
Independent auditor's report to the members of Close Brothers Group plc	Pages 84 to 86

- the information set out at the following pages of the annual report of the Issuer for the financial year ended 31 July 2015, including the auditor's report and audited consolidated annual financial statements for the financial year ended 31 July 2015 of the Issuer:

Financial Highlights	Page 1
Strategy and Key Performance Indicators	Pages 12 to 13
Financial Overview	Pages 14 to 19

The contents of the Issuer's website, any website mentioned in this Prospectus, with the exception of the website of the London Stock Exchange (where the Issuer's audited financial statements and interim unaudited financial statements have been published), or any website directly or indirectly linked to these websites have not been verified and do not form part of this Prospectus and investors should not rely on such information.

Copies of the documents incorporated by reference in this document may be obtained from the Issuer at its registered office and may be obtained (without charge) from the website of the Regulatory News Service operated by the London Stock Exchange at: http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

TERMS AND CONDITIONS

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

The £175,000,000 Callable Dated Subordinated Notes (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further Notes issued pursuant to Condition 16 which are consolidated and form a single series with the Notes) of Close Brothers Group plc (the "**Issuer**") are constituted by a trust deed dated 24 January 2017 (as amended and/or restated and/or supplemented from time to time, the "**Trust Deed**") made between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons from time to time being trustee or trustees appointed under the Trust Deed) as trustee for the Noteholders.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the agency agreement dated 24 January 2017 (as amended and/or restated and/or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, the Registrar, the Agent Bank and other Agents and the Trustee are available for inspection during normal business hours by prior arrangement by the Noteholders at the specified office of the Principal Paying Agent, being at the date of issue of the Notes at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

The Notes are issued in registered form in specified denominations of £100,000 and integral multiples of £1,000 in excess thereof.

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

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

2 Transfer of Notes

(a) Transfer of Notes

One or more Notes may, subject to Condition 2(d), be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. A new Certificate shall be issued to the transferee in respect of the Notes the subject of the relevant transfer and, in the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate in respect of the balance of the Notes not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding may be issued but only against surrender of the Certificate representing the existing holding of such person. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(b) *Delivery of New Certificates*

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

(c) *Transfers Free of Charge*

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

(d) *Closed Periods*

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of the Notes pursuant to Condition 7 or (ii) during the period of seven days ending on (and including) any Record Date.

3 STATUS

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

Noteholders in respect of, or arising under, the Notes (including any damages awarded for breach of obligations in respect thereof) are subordinated to the claims of Senior Creditors of the Issuer, present and future, as described in Condition 4.

4 SUBORDINATION

(a) Winding-Up

If a Winding-Up occurs, the rights and claims of the Noteholders against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any accrued and unpaid interest thereon and any damages awarded for breach of any obligations in respect thereof, provided however that such rights and claims shall be subordinated as provided in this Condition 4(a) and in the Trust Deed to the claims of all Senior Creditors but shall rank (a) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital, including all claims relating to the guarantees given by the Issuer in respect of the Existing Subordinated Debt) and (b) in priority to the claims of holders of all obligations of the Issuer 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 all classes of share capital of the Issuer.

(b) No set-off

Subject to applicable law, no Noteholder may exercise, 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 or the Trust Deed 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 owing 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 a 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.

As stated in further detail in Condition 15(d), the provisions of this Condition 4 apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in this Condition 4 or in Condition 10 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

5 INTEREST

(a) Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount:

(i) from and including the Issue Date to but excluding 24 January 2022 (the "**Reset Date**"), at the rate of 4.25 per cent. per annum (the "**Initial Interest Rate**"); and

(ii) thereafter, at the Reset Interest Rate,

in each case, payable semi-annually in arrear on 24 January and 24 July of each year, commencing on 24 July 2017 (each an "**Interest Payment Date**"). The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

(b) Calculation of interest

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

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

The semi-annual Interest Amount payable for each Interest Period commencing prior to the Reset Date will amount to £21.25 per Calculation Amount.

(c) Reset Interest Rate

(i) The "**Reset Interest Rate**" in respect of the Reset Period will be the sum of the 5-year Gilt Rate and the Margin, all as determined by the Agent Bank after 5:00 p.m. (London time) on the Reset Determination Date (rounded to three decimal places with 0.0005 rounded down).

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

(iii) "**5-year Gilt Rate**" means, in relation to the Reset Period:

(A) the 5 year note mid yield for UK Government Bonds as determined by the Agent Bank in a commercially reasonable manner by reference to the Screen Page after 5:00 p.m. (London time) on the Reset Determination Date; or

(B) if such rate cannot be determined by reference to the Screen Page at such time on the Reset Determination Date, the Reset Reference Bank Rate on the Reset Determination Date;

(iv) "**5-year Gilt Rate Quotations**" means the arithmetic mean of the bid and offered yields for the relevant Reference Bond;

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

(vi) "**Margin**" means 3.65 per cent.;

(vii) "**Reference Bond**" means the UK government bond selected by the Issuer on the advice of an investment bank of international repute that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in sterling and with a five year tenor;

(viii) "**Reset Determination Date**" means the day falling two Business Days prior to the Reset Date;

(ix) "**Reset Reference Bank Rate**" means, in relation to the Reset Period, the percentage rate determined on the basis of the 5-year Gilt Rate Quotations provided by the Reset Reference Banks to the Agent Bank at approximately 6:00 p.m. (London time) on the Reset Determination Date. If at least four quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the Reset Period will be an amount equal to the Initial Interest Rate less the Margin;

(x) "**Reset Reference Banks**" means six banks which are primary government securities dealers or market makers in pricing corporate bond issues selected by the Agent Bank (excluding the Agent Bank or any of its affiliates) after consultation with the Issuer; and

(xi) "**Screen Page**" means Bloomberg page "DMO2" (UK Govt Bonds 5 Year Generic Mid Yield) or such other page as may replace it on Bloomberg or, as the case may be, on such other information service that may replace Bloomberg, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Gilt Rate.

(d) *Publication of Reset Interest Rate*

The Issuer shall cause the Agent Bank to give notice of the Reset Interest Rate to the Issuer, the Agents, the Trustee and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed (by no later than the Reset Determination Date) and to be notified to Noteholders in accordance with Condition 12 as soon as possible after its determination, but in no event later than the fourth Business Day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

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

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

(f) *Agent Bank*

The Issuer shall procure that, from the Reset Date and for so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may, subject to the prior written approval of the Trustee, terminate the appointment of the Agent Bank and replace it with another Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Reset Interest Rate for the Reset Period or to comply with any other requirement, the Issuer shall, subject to the prior written approval of the Trustee, appoint another Agent Bank. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

(g) *Interest accrual*

Each Note will cease to bear interest from and including its due date for redemption pursuant to Condition 7(a), 7(b), 7(c) and/or 7(d) or its date of substitution pursuant to Condition 7(f) as the case may be, unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue as provided in the Trust Deed.

6 PAYMENTS

(a) *Payments in respect of Notes*

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

For the purposes of this Condition 6(a), a Noteholder's "**registered account**" means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the register of Noteholders at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of interest, on the relevant Record Date, and a Noteholder's registered address means its address appearing on the register of Noteholders at that time.

(b) *Payments subject to applicable laws*

Payments in respect of principal and interest on the Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto (a "**FATCA Withholding Tax**") and the Issuer will not be liable to pay to any Noteholders any additional amounts on account of, or in respect of, any FATCA Withholding Tax.

(c) *No commissions*

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

(d) *Payment on Business Days*

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

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

(e) *Agents*

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

(i) there will at all times be a Principal Paying Agent (as defined in the Agency Agreement);

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

(iii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be an Agent (which may be the Principal Paying Agent) having a specified office in the place required by the rules and regulations of the relevant Stock Exchange or any other relevant authority;

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

(v) there will at all times be a Registrar; and

(vi) there will be an Agent Bank in the circumstances described in Condition 5(f).

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 REDEMPTION AND PURCHASE

(a) *Final redemption*

Unless previously redeemed, purchased and cancelled or (pursuant to Condition 7(f)) substituted, the Notes will be redeemed at their principal amount, together with accrued and unpaid interest on 24 January 2027 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

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

The Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on the Reset Date at their principal amount together with any accrued and unpaid interest to the date of redemption.

(c) *Redemption for regulatory reasons*

If at any time a Capital Disqualification Event has occurred, the Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at any time at their principal amount together with any accrued and unpaid interest.

A "**Capital Disqualification Event**" shall occur if at any time 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 all or any part of the outstanding principal amount of the Notes ceasing to be included in, or counting towards, the Issuer Group's Tier 2 Capital under the Regulatory Capital Requirements, subject, in the case of a redemption occurring prior to the Reset Date, to the Issuer demonstrating to the satisfaction of the Supervisory Authority that such exclusion was not reasonably foreseeable as at the Issue Date. For the avoidance of doubt, any amortisation of the Notes pursuant to Article 64 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012, (or any equivalent or successor provision) shall not comprise a Capital Disqualification Event.

Prior to the publication of any notice of redemption pursuant to this Condition 7(c), the Issuer shall deliver to the Trustee a certificate signed by an Authorised Signatory of the Issuer stating that the requirements for redeeming the Notes pursuant to this Condition 7(c) have been met and the Trustee shall be entitled to accept the certificate without inquiry as sufficient evidence of the satisfaction of the requirements set out above, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

(d) *Redemption for tax reasons*

If a Tax Event has occurred, the Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes at any time at their principal amount together with any accrued and unpaid interest, subject, in the case of a redemption occurring prior to the Reset Date, to the Issuer demonstrating to the satisfaction of the Supervisory Authority that the Tax Law Change (resulting in the Tax Event) is material and was not reasonably foreseeable as at the Issue Date.

A "**Tax Event**" is deemed to have occurred if as a result of a Tax Law Change:

(i) in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts and the Issuer cannot avoid the foregoing by taking measures reasonably available to it; or

(ii) the Notes are prevented from being treated as loan relationships for United Kingdom tax purposes; or

(iii) the Issuer would not or there is more than an insubstantial risk that the Issuer would not be entitled to a deduction in computing its tax liabilities in respect of all or any part of its financing expense arising in relation to the Notes or the amount of such deduction is materially reduced; or

(iv) the Issuer would not be able to have losses or deductions in respect of its finance expense arising in relation to the Notes set against the profits or gains, or profits or gains offset by the losses as deductions, of companies with which the Issuer is grouped, or otherwise would be so grouped for United Kingdom tax purposes.

"**Tax Law Change**" means a change in, or amendment to, the laws or regulations of the United Kingdom or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of such laws by a decision of any court or tribunal that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes effective, or, in the case of a change in law, if such change is enacted by a United Kingdom Act of Parliament or by statutory instrument, on or after the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition 7(d), the Issuer shall deliver to the Trustee a certificate signed by an Authorised Signatory of the Issuer stating that the requirements for redeeming the Notes pursuant to this Condition 7(d) have been met, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the requirements set out above, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

(e) *Purchases*

The Issuer or any of its Subsidiaries (as defined below) may, at its option but subject to Regulatory Approval, 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. All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, cancelled.

(f) *Substitution or Variation*

If a Tax Event or a Capital Disqualification Event has occurred, then the Issuer may, in its sole discretion but subject to Condition 7(g), having given not less than 30 nor more than 60 days' notice to Noteholders in accordance with Condition 12, the Trustee, the Agent Bank and the Agents (which notice shall be irrevocable and shall specify the date for substitution or variation, as the case may be, of the Notes), at its option and without any requirement for the consent or approval of the Noteholders, at any time (whether before or following the Reset Date), 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, and the Trustee shall (subject to the following provisions of this Condition 7(f) and subject to the receipt by it of the certificates of the Authorised Signatory referred to below and in the definition of Compliant Notes) agree to such substitution or variation. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 7(f), as the case may be.

The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution of the Notes for, or the variation of the terms of the Notes so that they remain, or as appropriate, become, Compliant Notes, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation (i) if the terms of the proposed alternative Compliant Notes or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it or (ii) it is not indemnified and/or secured and/or pre-funded to its satisfaction in connection with such participation or assistance. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes as provided in, as appropriate, Conditions 7(c) or 7(d).

Prior to the publication of any notice of substitution or variation pursuant to this Condition 7(f), the Issuer shall deliver to the Trustee a certificate signed by an Authorised Signatory of the Issuer stating that the conditions precedent for substituting or varying the Notes pursuant to this Condition 7(f) have been met and that the terms of the relevant Compliant Notes comply with the definition thereof in Condition 19 and the Trustee shall be entitled to accept the certificate without inquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

In connection with any substitution or variation in accordance with this Condition 7(f), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(g) *Conditions to redemption, substitution and variation*

Any redemption, substitution or variation of the Notes under Conditions 7(b), 7(c), 7(d) or 7(f) is subject to obtaining Regulatory Approval and (in the case of any redemption) compliance with the Regulatory Preconditions.

(h) *Cancellation*

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

(i) *Notices final*

Upon the expiry of any notice as is referred to in Condition 7(b), 7(c), 7(d) and 7(f), the Issuer shall be bound (subject in all circumstances only to Condition 7(g)) to redeem, vary the terms of or substitute (as applicable) the Notes to which the notice refers in accordance with the terms of such paragraph.

(j) *Trustee not obliged to monitor*

The Trustee shall not be under any duty to investigate whether any condition precedent to redemption, substitution or variation under this Condition 7 has occurred and (i) shall not be responsible to Noteholders for any loss arising from any failure by it to do so and (ii) shall be entitled to assume, unless it has actual knowledge to the contrary, that no such condition precedent to redemption, substitution or variation has occurred and that all Regulatory Approvals and/or Regulatory Preconditions have been satisfied. The Trustee shall be entitled to rely without investigation and without liability as aforesaid on any certificate delivered to it in connection with this Condition 7.

8 TAXATION

(a) Payment without withholding

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Notes in the absence of any withholding or deduction, except that no Additional Amounts shall be payable in relation to any payment in respect of any Note:

(i) held by or on behalf of a Noteholder who is liable to such Taxes in respect of such Note by reason of it having some connection with the United Kingdom other than the mere holding of the Note or the receipt of amounts in respect of the Note;

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Noteholder would have been entitled to such Additional Amounts on surrendering such Certificate for payment on the last day of such period of 30 days; or

(iii) where the Noteholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption.

(b) Additional Amounts

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9 PRESCRIPTION

Notes will become void unless presented for payment within periods of 10 years (in the case of principal) and 5 years (in the case of interest) from the Relevant Date (as defined below) in respect of the Notes.

10 NON-PAYMENT WHEN DUE AND WINDING-UP

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

(a) *Proceedings for Winding-Up*

If the Issuer has not made payment in respect of the Notes for a period of seven days or more (in the case of any payments of principal), or (in the case of any interest payment or any other amount in respect of the Notes) for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Notes and, unless proceedings for a Winding-Up have already commenced, the Trustee may institute proceedings for a Winding-Up.

In the event of a Winding-Up (whether or not instituted by the Trustee) the Trustee may prove in such Winding-Up, such claim being that set out in Condition 4(a).

(b) *Enforcement*

Without prejudice to Condition 10(a), the Trustee may, at its discretion, and without notice, institute such proceedings and/or take any other steps or action against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under 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 in respect of the Notes, including any damages awarded for breach of any obligations) provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions or the Trust Deed.

Nothing in this Condition 10(b) shall, however, prevent the Trustee instituting proceedings for the Winding-Up, proving in any Winding-Up or exercising rights under Condition 4(a) in respect of any payment obligations of the Issuer arising from or in respect of the Notes or the Trust Deed (including any damages awarded for breach of any obligations) in the circumstances provided in Condition 10(a).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Conditions 10(a) or 10(b) against the Issuer to enforce the terms of the Notes or the Trust Deed or any other action under or pursuant to the Trust Deed unless (i) it shall have been so requested by an Extraordinary Resolution of the Noteholders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Right of Noteholders*

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for a Winding-Up or to prove in a Winding-Up unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

(e) *Extent of Noteholder's remedy*

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders, 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 the Trust Deed.

11 REPLACEMENT OF CERTIFICATES

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

12 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 admitted to trading on the Market 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.

13 MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVERS

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting of Noteholders for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes Reserved Matters, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the aggregate principal amount of the Notes for the time being outstanding. An

Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting and whether or not they voted on the resolution.

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

Without prejudice to Condition 7(f), the Trustee may agree (other than in respect of a Reserved Matter), without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid and irrespective of whether the same constitutes a Reserved Matter, to any modification which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest error.

(c) *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 of the Issuer pursuant to Condition 14), 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, except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(d) *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation or substitution referred to in this Condition 13 or in Condition 14 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14 SUBSTITUTION OF THE ISSUER

The Trust Deed contains provisions permitting the Trustee (subject to Regulatory Approval) to agree, without the consent of the Noteholders, to the substitution of the

Issuer's Successor in business (as defined in Condition 19) or the Issuer's Holding Company (as defined in Condition 19) in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the Notes, subject to:

(a) the Trustee being of the opinion that such substitution is not materially prejudicial to the interests of the Noteholders; and

(b) certain other conditions set out in the Trust Deed being complied with.

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

15 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.

(b) Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, among other things, to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries 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, liability etc.

The provisions of Condition 4 apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Conditions 4 or 10 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.

16 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the issue price thereof) so that the same shall, and any other further notes may, be consolidated and form a single series with the Notes. Any further notes or bonds 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.

17 GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing law

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

(b) Jurisdiction of English courts

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

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

18 RIGHTS OF THIRD PARTIES

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

19 DEFINITIONS

In these Conditions:

"**5-year Gilt Rate**" has the meaning given to it in Condition 5(c)(iii).

"**5-year Gilt Rate Quotations**" has the meaning given to it in Condition 5(c)(iv).

"**Accrual Date**" has the meaning given to it in Condition 5(b).

"**Additional Amounts**" has the meaning given to it in Condition 8(a).

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

"**Agent**" means the Registrar and each of the other agents appointed pursuant to the Agency Agreement, save for the Agent Bank.

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

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

“**Business Day**” has the meaning given to it Condition 5(c)(v).

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

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

“**Certificate**” has the meaning given to it in Condition 1.

“**Code**” has the meaning given to it in Condition 6(b).

“**Compliant Notes**” means securities issued directly by the Issuer or issued indirectly by the Issuer and guaranteed by the Issuer (on a subordinated basis equivalent to the subordination set out in Conditions 3 and 4 and in the Trust Deed) that:

(i) 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 financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect (including as to such consultation) of an Authorised Signatory shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1) contain terms which comply with the then current requirements of the Supervisory Authority in relation to Tier 2 Capital; (2) include terms which provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Notes and do not provide for interest cancellation or deferral; (3) rank senior to, or *pari passu* with, the ranking of the Notes; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption and (5) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; and

(ii) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer.

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

“**Day-Count Fraction**” has the meaning given to it in Condition 5(b).

“**Existing Subordinated Debt**” means (i) the £15,000,000 guaranteed subordinated notes due 2026 issued by Close Brothers Limited and guaranteed by the Issuer pursuant to a deed of guarantee dated 2 March 2001 and (ii) the £30,000,000 guaranteed subordinated notes due 2026 issued by Close Brothers Limited and guaranteed by the Issuer pursuant to a deed of guarantee dated 1 March 2001.

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

"**FATCA Withholding Tax**" has the meaning given to it in Condition 6(b).

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

"**Initial Interest Rate**" has the meaning given to it in Condition 5(a)(i).

"**Interest Amount**" means the amount due on each Note on an Interest Payment Date.

"**Interest Payment Date**" has the meaning given to it in Condition 5(a).

"**Interest Period**" has the meaning given to it in Condition 5(a).

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

"**Issue Date**" means 24 January 2017.

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

"**Issuer Group**" means the Issuer and each entity which is part of the UK prudential consolidation group (as that term, or its successor, is used in the Regulatory Capital Requirements) of which the Issuer is part from time to time.

"**Margin**" has the meaning given to it in Condition 5(c)(vi).

"**Market**" means the London Stock Exchange's regulated market.

"**Maturity Date**" has the meaning given to it in Condition 7(a).

"**Noteholder**" **or** "**Holder**" means the person in whose name a Note is registered.

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

"**Official List**" means the official list of the London Stock Exchange.

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

"**Proceedings**" has the meaning given to it in Condition 17(b).

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

"**Record Date**" has the meaning given to it in Condition 6(a).

"**Reference Bond**" has the meaning given to it in Condition 5(c)(vii).

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

"**Registrar**" means Citigroup Global Markets Deutschland AG or such other registrar appointed by the Issuer from time to time in respect of the Notes in accordance with these Conditions.

"**Regulatory Approval**" means such supervisory permission required within prescribed periods from, the Supervisory Authority, or such waiver of the then prevailing Regulatory

Capital Requirements from the Supervisory Authority (if any), as is required under the then prevailing Regulatory Capital Requirements.

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

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

(i) the Issuer 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 Issuer Group; or

(ii) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer Group would, following such redemption, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time.

In addition, 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 this definition, the Issuer having complied with such other pre- condition.

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

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

"**Reset Date**" means 24 January 2022.

"**Reset Determination Date**" has the meaning given to it Condition 5(c)(viii).

"**Reset Interest Rate**" has the meaning given to it in Condition 5(c)(i).

"**Reset Period**" means the period from and including the Reset Date to but excluding the Maturity Date.

"**Reset Reference Bank Rate**" has the meaning given to it in Condition 5(c)(ix).

"**Reset Reference Banks**" has the meaning given to it in Condition 5(c)(x).

"**Screen Page**" has the meaning given to it in Condition 5(c)(xi).

"**Senior Creditors**" means (i) creditors of the Issuer who are unsubordinated creditors of the Issuer; or (ii) creditors of the Issuer whose claims are or are expressed to be subordinated (whether only in the event of a Winding-Up or otherwise) to the claims of other creditors of the Issuer (other than those whose claims are in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital of the Issuer Group or whose claims rank, or are expressed to rank *pari passu* with, or junior to, the claims of Noteholders in respect of the Notes).

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

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

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

"**Tax Event**" has the meaning given to it in Condition 7(d).

"**Tax Law Change**" has the meaning given to it in Condition 7(d).

"**Taxes**" has the meaning given to it in Condition 8(a).

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

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

"**Transfer Agent**" means Citigroup Global Markets Deutschland AG.

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

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

"**Winding-Up**" means:

(i) an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved in writing by the Trustee or an Extraordinary Resolution and do not provide that the Notes thereby become redeemable or repayable in accordance with the Conditions);

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

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

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

Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the "**Registered Holder**") for a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and may be delivered on or prior to the original issue date of the Notes.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Note for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

Exchange of the Global Certificate

The following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or any Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2(a) may only be made in part:

(i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the holder of the Notes represented by the Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Notes represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Calculation of Interest

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, interest shall be calculated on the basis of the aggregate principal amount of the Notes represented by the Global Certificate, and not per Calculation Amount as provided in Condition 5(b).

Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which (notwithstanding Condition 6(a)) shall be on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

Notices

For so long as the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices may be given to the Noteholders by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to their respective accountholders in substitution for publication as required by the Conditions provided that, for so long as the Notes are listed on the regulated market of the London Stock Exchange 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 date of delivery or publication which, in the case of communication through Euroclear and Clearstream, Luxembourg, shall mean the date on which the notice is delivered to Euroclear and Clearstream, Luxembourg.

Prescription

Claims against the Issuer in respect of any amounts payable in respect of the Notes represented by the Global Certificate will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the due date.

Meetings

For the purposes of any meeting of the Noteholders, the holder of the Notes represented by the Global Certificate shall be treated as being entitled to one vote in respect of each £1.00 in principal amount of the Notes.

Written Resolution and Electronic Consent

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

(i) where the terms of the proposed resolution have been notified to the Noteholder through the relevant clearing system(s), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding ("**Electronic Consent**"). None of the Issuer or the Trustee shall be liable or responsible to anyone for such reliance; and

(ii) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system(s) with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the 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.

Euroclear and Clearstream, Luxembourg

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

USE OF PROCEEDS

The Notes are being issued to diversify and further strengthen the Group’s capital structure. It is the Group’s intention to downstream the majority, if not all, of the proceeds of the issuance of the Notes to Close Brothers Limited on a like-for-like basis.

DESCRIPTION OF THE ISSUER AND THE GROUP

History and Development of the Issuer

Close Brothers Group plc (the "**Issuer**") was incorporated in England and Wales on 3 June 1953 under the name "Safeguard Industrial Investments Limited" as a company with limited liability under the Companies Act 1948 with registered number 520241.

On 4 December 1981, it was re-registered as a public limited company under the Companies Acts 1948 to 1980 and, on 30 November 1984, its name was changed to "Close Brothers Group plc".

The Issuer has its principal place of business and registered office at 10 Crown Place, London EC2A 4FT and its telephone number is +44 (0)20 7655 3100.

The ordinary shares of the Issuer are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange. The Issuer is a member of the FTSE 250.

The Issuer is the ultimate holding company of a group of companies engaged in specialist financial services (the Issuer and its Subsidiaries together constitute the "**Group**").

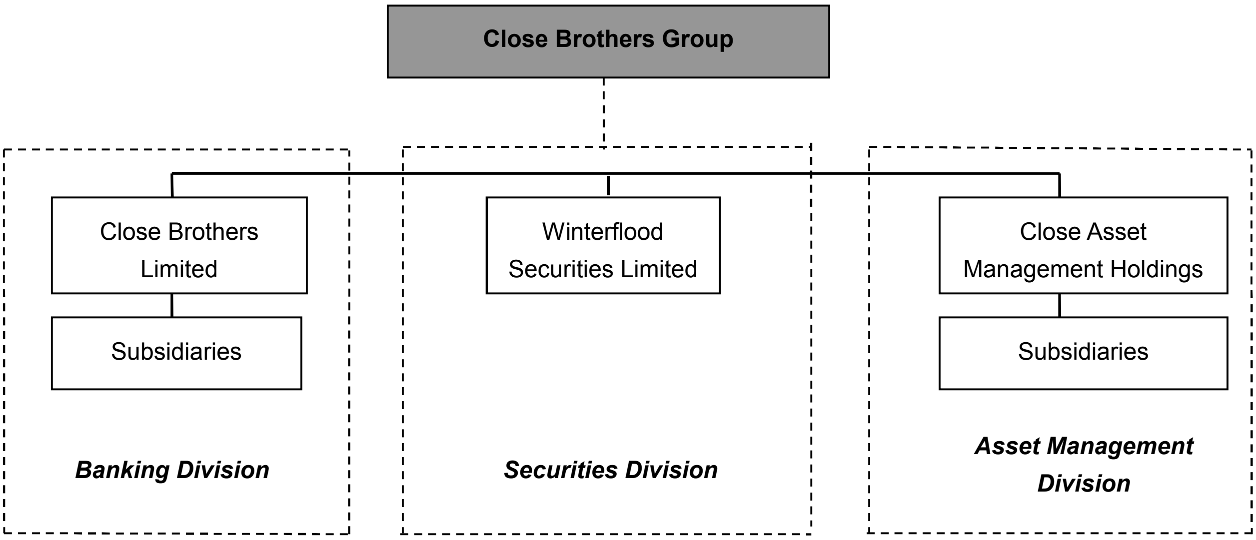
Overview of the Group

The Group has three operating divisions: (i) Banking, (ii) Asset Management and (iii) Securities.

The Group derives its revenue from a mix of fees, dealing profits and interest margin and employs over 3,000 individuals, principally across the UK.

The Group is focused on providing a differentiated and relationship driven service in specialist markets, where it has long-standing expertise, and on maintaining its prudent and consistent underwriting, founded in a deep knowledge of the sectors and asset classes it lends in. This in turn has allowed the Group to support its clients and continually invest in the business whilst generating consistent profitability through the cycle.

The following diagram provides an overview of the three operating divisions within Group:



A description of the three divisions is set out below:

Banking

Close Brothers Limited ("**CBL**"), a Subsidiary of the Issuer, is a bank authorised to accept deposits under the Financial Services and Markets Act 2000 ("**FSMA**"). CBL is authorised by PRA and regulated by the PRA and the FCA and along with a number of its subsidiaries, provides a range of banking services (the "**Banking division**"). The Banking division comprises a number of specialist businesses focused on secured lending to small and medium enterprises, professionals and consumers, mainly in the UK as well as in Ireland. It finances a wide range of asset classes including insurance premiums, property, domestic and commercial vehicles, specialist plant and machinery and invoice receivables.

The Banking division reports in three business units: (i) Retail, which includes the premium finance and motor finance businesses (ii) Commercial, which incorporates the asset finance operations as well as invoice finance; and (iii) Property.

The *premium finance* business in the Retail unit finances the insurance payments for companies and individuals via a network of insurance brokers, allowing the insured to pay insurance premiums in instalments. The premium finance business had a total loan book of £771 million as at 31 July 2016, with average tenor of 10 months, an average loan size of £500 and approximately 2 million customers.

The *motor finance* business in the Retail unit provides point of sale finance for the acquisition of predominantly used cars, motorcycles and light commercial vehicles, and operates through a network of motor dealers. The motor finance business had a loan book of £1.7 billion as at 31 July 2016, with an average tenor of 2 to 4 years, an average loan size of £6,000 and approximately 300,000 customers.

The *asset finance* business in the Commercial unit provides commercial asset financing, hire-purchase and leasing solutions for a diverse range of assets and sectors, including the financing of commercial vehicles, machine tools, contractors' plant, printing equipment, aircraft and medical equipment. The asset finance business had a loan book of £2.0 billion as at 31 July 2016, with an average tenor of 40 months, an average loan size of £40,000 and approximately 26,000 customers.

The *invoice finance* business in the Commercial unit provides debt factoring and invoice discounting to the small and medium enterprise (SME) sector. The invoice finance business had a loan book of £428 million as at 31 July 2016, with an average tenor of 2 to 3 months, an average loan size of £300,000 and approximately 1,300 customers.

The *property finance* business specialises in short-term residential development finance and bridging finance in the UK. The client base is predominantly professional property developers with an established track record. The property finance business had a loan book of £1.5 billion as at 31 July 2016, with an average tenor of 6 to 18 months, an average loan size of £1.2 million and approximately 800 customers. The portfolio does not include any mortgages, buy-to-let mortgages or mezzanine finance.

CBL is a predominantly secured lender, focusing on small ticket short tenor deals, with conservative loan to values (LTV), with typical LTVs ranging from 75-85% in motor finance, 90% in premium finance, 85-90% in asset finance, 80% in invoice finance and 50-60% in property finance. The underwriting model is well established and is based on local, specialist underwriting expertise with strong central oversight, resulting in a strong credit performance with loan losses limited to 0.6-2.6% over a 10 year period and an average of 1.4%.

The lending businesses are supported by the Treasury function which provides funding for the Group's lending activities while maintaining an appropriate level of liquidity.

The Group remains soundly funded with access to total funding of £8.2 billion as at 31 July 2016, funding the loan book of £6.4 billion. The Group has diverse sources of funding and currently utilises:

- shareholder funds;
- senior unsecured debt;
- other facilities including securitisations, subordinated debt and the government's Funding for Lending Scheme;
- term retail deposits; and
- corporate deposits.

Over the past several years the Group has diversified its sources of funding through debt capital markets issuance, raising longer term retail deposits and utilising repurchase and securitisation agreements. This has enabled it to meet its funding requirements and support strong growth in the loan book over the last few years.

The Group has a robust liquidity framework with policies in place to ensure it meets short and long term cash flow needs as well as satisfying any external regulatory requirements. The Group has maintained a sound level of liquidity which is appropriate in relation to the Group's cash flow needs and the current market environment.

At 31 July 2016, the Group had £1.0 billion of treasury assets which included £0.8 billion of high quality liquid assets and a small holding of certificates of deposit.

In October 2016 a senior unsecured bond, guaranteed by CBL was issued by its finance vehicle and subsidiary, Close Brothers Finance plc, raising £250 million and further diversifying the Group's funding.

The Banking division employs over 2,000 individuals.

The following table sets out a summary of certain information relating to the Banking division's performance for the financial year ended 31 July 2016 and for the 10 average over the financial years ended 31 July 2006 to 31 July 2016.

	10 year average	**Financial year ended 31 July 2016**
Return on opening equity[1]	22%	26%
Return on net loan book[2]	3.4%	3.6%
Bad debt ratio[3]	1.4%	0.6%
Net interest margin[4]	9.0%	8.2%
Loan book growth	13%	12%

Asset Management

Asset Management provides an integrated offering directly to private clients, combining financial planning advice and investment management, as well as providing an investment management offering to third party advisers and directly to clients through its bespoke portfolio managers. Central to both propositions is an award-winning, institutional-quality investment capability.

1 Adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests.

2 Adjusted operating profit from lending activities on average net loans and advances to customers and operating lease assets.

3 Impairment losses on average net loans and advances to customers and operating lease assets.

4 Net income generated by lending activities, including net interest income, net fees and commissions and net operating lease income (deducting depreciation), on average net loans and advances to customers and operating lease assets.

Specialising in managing client portfolios for over 40 years, the financial planning and investment team is currently supported by more than 550 staff, working from 8 offices across the UK.

As at 31 July 2016, the business had total managed assets of £8.0 billion and total client assets (which include advised assets under third party management) of £9.9 billion. Total client assets have increased by £1.6 billion since 31 July 2012.

The following table sets out a summary of the adjusted operating profit of the Asset Management division for each of the financial years ended on 31 July 2012 to 31 July 2016.

Financial year	**2012**	**2013**	**2014**	**2015**	**2016**
Adjusted[5] operating profit (£m)	(4)	4	10	18	14

Securities

The principal trading company in the Securities division is Winterflood Securities Limited ("**Winterflood**").

Winterflood is a leading liquidity provider and market-maker in UK equities. Winterflood's core business is market-making in the UK to retail stockbrokers and institutions, providing continuous liquidity in all market conditions. It trades in around 15,000 instruments in the UK and overseas and has a specialist team focused on investment trusts.

Winterflood Business Services is a separate business within the Securities division founded by Winterflood in January 2010, which provides outsourced trading and custody services to institutions.

Winterflood's income is predominantly trading income from its market-making activities. During the financial year ended 31 July 2016, Winterflood traded an average of 51,864 bargains per day.

This division has over 200 employees.

The following table sets out a summary of the adjusted operating profit of the Securities division and the number of loss days per year for the Securities division for each of the financial years ending on 31 July 2007 to 31 July 2016.

[5] Stated before amortisation of intangible assets on acquisition. Adjusted measures are used to increase comparability between periods and exclude amortisation of intangible assets on acquisition, and any goodwill impairments and exceptional items.

Financial year	2012	2013	2014	2015	2016
Adjusted operating profit (£m)	16	17	27	25	19
Number of loss days in year	13	8	4	14	17

Recent developments

Q1 trading update

On 17 November 2016 the Group issued a scheduled trading update for the quarter ended 31 October 2016, reporting a very good start to the year principally driven by a strong performance in Banking as well as increased trading income in Winterflood.

The Banking division performed strongly in the first quarter with continued good growth in loan book and profit. The loan book was up 2.7% in the period to £6.6 billion (31 July 2016: £6.4 billion) with the net interest margin stable on the last financial year. The bad debt ratio reduced markedly compared to the prior year, driven by continued good underlying credit performance as well as provision releases.

Winterflood continued to see increased investor risk appetite and retail trading activity, particularly in August and September.

Asset Management benefited from improved market levels with managed assets at 31 October 2016 up at £8.2 billion (31 July 2016: £8.0 billion) driven by positive market movements.

The first quarter trading statement on 17 November confirmed a strong start to the 2017 financial year, and performance in November and December has continued to progress well.

Increase in risk weighted assets

The European Banking Authority has recently issued guidance which mandates the risk weighting of property development loans at 150% under the standardised approach, which will apply to the majority of our property loan book notwithstanding our long track record of prudent and profitable lending in this area. We estimate this change would reduce our CET1 and total capital ratios, reported at 13.5% and 13.8% respectively at 31 July 2016, by approximately 1.2% and 1.1% respectively on a pro forma basis.

The Group’s policy is to maintain a strong capital position with headroom to absorb any changes in regulatory requirements or other short term movements. As a result, both the CET1 and total capital ratios remain comfortably ahead of minimum requirements, and the addition of tier 2 capital will ensure the Group maintains this headroom longer term.

Directors

The directors of the Issuer are as follows:

Name	***Position***	***Principal Outside Activities***
Preben Prebensen……..................	Chief Executive	None.
Jonathan Howell…………………...	Finance Director	Non-executive director of The Sage Group plc.
Elizabeth Lee…………………….......	Group Head of Legal and Regulatory Affairs	None.
Strone Macpherson………………..	Chairman	Chairman of British Empire Securities and General Trust plc and trustee of the King's Fund.
Geoffrey Howe……………………..	Senior Independent Director	Chairman of Jardine Lloyd Thompson Group plc.
Bridget Macaskill……..................…	Independent Non-Executive Director	Chairman of First Eagle Holdings LLC and senior advisor to First Eagle Investment Management LLC, trustee of the TIAA-CREF funds and non-executive director of Jupiter Fund Management plc and of Jones Lang LaSalle Incorporated.
Lesley Jones……………………….	Independent Non-Executive Director	Non-executive director of Northern Bank Limited and N Brown Group plc.
Oliver Corbett……………………..	Independent Non-Executive Director	Chief financial officer of Hyperion Insurance Group Limited.

The business address of each of the directors is 10 Crown Place, London EC2A 4FT.

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

TAXATION

UNITED KINGDOM TAXATION

The comments below are of a general nature and are not intended to be exhaustive. They apply only to persons who are the beneficial owners of Notes and who hold those Notes as investments. They represent a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs ("HMRC") practice (which may not be binding on HMRC) relating only to United Kingdom withholding tax, United Kingdom stamp duty and stamp duty reserve tax ("SDRT"). They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom taxation treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

The following comments are made on the assumption that the Notes qualify, or have qualified, as Tier 2 instruments under Article 63 of Commission Regulation (EU) No 575/2013 (the "**CRR**") and form, or have formed, a component of Tier 2 Capital for the purposes of the CRR and that, as a result, the Notes will be "regulatory capital securities" for the purposes of the Taxation of Regulatory Capital Securities Regulations 2013 (the "**Regulations**"). Prospective Noteholders should note that, if the Notes are not "regulatory capital securities" for the purposes of the Regulations, or if there are arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage (as defined in section 1139 of the Corporation Tax Act 2010) for any person as a result of the application of the Regulations, the applicability of the following comments to the Notes may be affected.

Payments of interest on the Notes by the Issuer may, pursuant to the Regulations, be made without deduction or withholding of or on account of United Kingdom income tax.

Transfers (including the issuance and redemption) of, and agreements to transfer, the Notes are, pursuant to the Regulations, exempt from United Kingdom stamp duty and SDRT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event that any withholding were to be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person would be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Managers have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated 19 January 2017, agreed to subscribe or procure subscribers for the Notes at the issue price of 99.759 per cent. of their principal amount less a combined structuring, management and underwriting commission, subject to the provisions of the Subscription Agreement. The Issuer will also reimburse the Managers in respect of certain of its expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

Selling restrictions

United States

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

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and 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. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

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

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

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

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

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by resolutions of the Board of Directors of the Issuer passed on 17 November 2016 and resolutions of a committee of the Board of Directors of the Issuer passed on 13 January 2017.

Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List, and to the London Stock Exchange for the Notes to be admitted to trading on its regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be approximately £4,000.

Indication of Yield

Based upon an issue price of 99.759 per cent. of the principal amount of the Notes, the yield of the Notes for the period from (and including) the Issue Date to (but excluding) the Reset Date, is 4.304% per cent. per annum on a semi-annual basis. The yield is calculated at the Issue Date and is not an indication of future yield.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1548943221 and the Common Code is 154894322.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

There has been no significant change in the financial or trading position of the Group since 31 July 2016 and no material adverse change in the financial position or prospects of the Issuer since 31 July 2016.

Litigation

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

Auditors

The consolidated financial statements of the Group for the years ended 31 July 2015 and 31 July 2016 have been prepared in accordance with IFRS and have been reported on without qualification by Deloitte LLP.

Deloitte LLP, a member of the Institute of Chartered Accountants in England and Wales, is the auditor appointed by the Issuer for the purposes of auditing its consolidated financial statements.

Documents available

Physical copies of the following documents will be available while the Notes remain outstanding at the registered office of the Issuer and the Principal Paying Agent during normal business hours on any weekday:

- the constitutional documents of the Issuer;
- the Agency Agreement and the Trust Deed (which includes the form of the Global Certificate);
- the audited consolidated financial statements of the Group for the years ended 31 July 2015 and 31 July 2016; and
- this Prospectus together with any supplement to this Prospectus.

In addition, this Prospectus will be published via the Regulated News Service (RNS) operated by the London Stock Exchange.

Incorporation of Issuer

The Issuer is a public limited company originally incorporated as a private limited company on 3 June 1953 under the Companies Act 1948. On 4 December 1981, it was re-registered as a public limited company under the Companies Acts 1948 to 1980 and, on 30 November 1984, its name was changed to "Close Brothers Group plc".

Conflicts of Interest

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

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