Santander UK Group Holdings plc

(*Incorporated in England and Wales with limited liability, Registered Number 08700698*)

£500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities

Issue price: 100 per cent.

The £500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the "**Securities**") are issued by Santander UK Group Holdings plc (the "**Issuer**") and constituted by a trust deed to be dated on or about 10 April 2017 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and the Trustee (as defined in "*Terms and Conditions of the Securities*" (the "**Conditions**", and references herein to a numbered "**Condition**" shall be construed accordingly)). References herein to the "**Group**" shall mean the Issuer and its subsidiaries from time to time.

This Offering Memorandum has been approved by the UK Financial Conduct Authority (the "**FCA**") (the "**UK Listing Authority**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The UK Listing Authority only approves this Offering Memorandum as meeting the requirements imposed under UK and EU law pursuant to the Prospectus Directive. Application has been made to the UK Listing Authority for the Securities to be admitted to the official list (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the securities to be admitted to trading on its 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 Offering Memorandum comprises a prospectus for the purposes of the Prospectus Directive.

The Securities will bear interest ("**Distributions**") for the period from, and including 10 April 2017 (the "**Issue Date**") to, but excluding, 24 June 2024 (the "**First Reset Date**") at 6.75 per cent. per annum (the "**Initial Distribution Rate**"). The Distribution Rate (as defined herein) will be reset on each Reset Date (as defined herein). From (and including) each Reset Date to (but excluding) the next succeeding Reset Date thereafter, the Distribution Rate shall be the aggregate of 5.792 per cent. per annum and the applicable 5-year Mid-Swap Rate (as defined herein). Subject to cancellation (in whole or in part) as provided herein, interest on the Securities will be payable quarterly in arrear (with a short first Distribution Period) on 24 March, 24 June, 24 September and 24 December in each year (each a "**Distribution Payment Date**") commencing on 24 June 2017.

The Issuer may at any time elect, in its sole and full discretion, to cancel (in whole or in part) the Distribution Amount (as defined herein) otherwise scheduled to be paid on any Distribution Payment Date. The Issuer shall cancel any Distribution Amount otherwise scheduled to be paid on a Distribution Payment Date to the extent that such Distribution Amount together with any Additional Amounts (as defined herein) payable with respect thereto, when aggregated with any distributions or payments on all other own funds instruments (excluding Tier 2 Capital instruments), paid, declared or required to be paid in the then current financial year of the Issuer exceeds the amount of the Issuer's Distributable Items (as defined herein). The cancellation of any Distribution Amount shall not constitute a default for any purpose on the part of the Issuer and Distribution Amounts which are cancelled do not become due and are non-cumulative. Subject as provided herein, all payments in respect of or arising from the Securities are conditional upon the Issuer being solvent at the time for payment and immediately following payment.

The Securities are perpetual securities with no fixed redemption date, and the Securityholders (as defined herein) have no right to require the Issuer to redeem or purchase the Securities at any time. Subject to the Issuer having obtained Regulatory Approval (as defined herein) and to compliance with the Regulatory Preconditions (as defined herein), the Securities may be redeemed at the option of the Issuer (i) on the First Reset Date or any Reset Date thereafter, or (ii) at any time upon the occurrence of certain specified events relating to taxation or a Regulatory Capital Event (as defined herein), in each case, at their principal amount together with any unpaid Distributions (but excluding any Distributions which have been cancelled in accordance with the Conditions).

The entire principal amount of the Securities will be written off on a permanent basis and all accrued and unpaid Distributions cancelled if a Loss Absorption Event (as defined herein) occurs. The Securities will also be subject to write-down and conversion powers exercisable by the UK resolution authorities under, and in the circumstances set out in, the Banking Act 2009, as amended.

The Securities will be issued in the form of a global security in registered form. The global security will be deposited with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), and registered in the name of the nominee of the common depositary, on the Issue Date. Beneficial interests in the global security will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Interests in the global security will be exchangeable for the relevant definitive securities only in certain limited circumstances. See "*Overview of the Securities while in Global Form*". The denominations of the Securities shall be £200,000 and integral multiples of £1,000 in excess thereof.

An investment in the Securities involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Offering Memorandum.

The Securities are not intended to be sold and should not be sold to retail clients in the European Economic Area ("**EEA**"), as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. In addition, the Securities may only be distributed in compliance with CONSOB Communication No. 0097966 concerning the distribution of complex products to Italian retail investors. Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on page 3 of this Offering Memorandum for further information.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the state securities laws of any state of the United States. The Securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). For a description of certain restrictions on sales of the Securities, see "*Subscription and Sale*".

The Securities are expected, on issue, to be rated Ba2(hyb) by Moody's Investors Service Ltd., BB+ by Fitch Ratings Ltd. and B+ by Standard & Poor's Credit Market Services Europe Limited. Each of Moody's Investors Service Ltd., Fitch Ratings Ltd. and Standard & Poor's Credit Market Services Europe Limited is established in the European Union and registered under Regulation 1060/2009/EC on credit rating agencies. 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.

The Securities are not savings accounts, deposits or other obligations of a bank and are not protected deposits for the purposes of the FSCS or insured by the FDIC or any other governmental agency or instrumentality.

Structuring Adviser

SANTANDER GLOBAL CORPORATE BANKING

Managers

BARCLAYS	CITIGROUP	MORGAN STANLEY	SANTANDER GLOBAL CORPORATE BANKING

Offering Memorandum dated 6 April 2017

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

No person is or has been authorised to give any information or to make any representation other than those contained in or consistent with this Offering Memorandum in connection with the issue or sale of the Securities and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, any of the Managers (as defined in "*Subscription and Sale*" below) or the Trustee. Neither the delivery of this Offering Memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that any other information supplied in connection with the Securities is correct as of any time after the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Managers and the Trustee have not separately verified the information contained in this Offering Memorandum. Neither the Managers nor the Trustee make any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Offering Memorandum or any other information provided by the Issuer in connection with the offering of the Securities. None of the Managers or the Trustee accepts any liability in relation to the information contained in this Offering Memorandum or any other information provided by the Issuer in connection with the offering of the Securities or their distribution. Neither this Offering Memorandum nor any other information supplied in connection with the offering of the Securities is intended to constitute, and should not be considered as, a recommendation by any of the Issuer, the Managers or the Trustee that any recipient of this Offering Memorandum or any other information supplied in connection with the offering of the Securities should purchase the Securities. Each potential purchaser of Securities should determine for itself the relevance of the information contained in this Offering Memorandum and its purchase of Securities should be based upon such investigation as it deems necessary. None of the Managers or the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Memorandum nor to advise any investor or potential investor in the Securities of any information coming to their attention.

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

In the ordinary course of business, each of the Managers has engaged and may in the future engage in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither this Offering Memorandum nor any other information provided by the Issuer in connection with the offering of the Securities constitutes an offer of, or an invitation by or on behalf of, the Issuer or the Managers or the Trustee or any of them to subscribe for, or purchase, any of the Securities (see "*Subscription and Sale*" below). This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of Securities may be restricted by law in certain jurisdictions. The Issuer, the Trustee and the Managers do not represent that this Offering Memorandum may be lawfully distributed, or that the Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee or the Managers or any of them which is intended to permit a public offering of the Securities or the distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Securities in the U.S., the United Kingdom, Italy, Spain, Switzerland, Hong Kong and Singapore. Persons in receipt of this Offering Memorandum are required by the Issuer, the Trustee and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Securities and distribution of this Offering Memorandum, see "*Subscription and Sale*" below.

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Securities to retail investors.

In particular, in June 2015, the FCA published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the "**PI**"). Under the rules set out in the PI (as amended or replaced from time to time, the "**PI Rules**") (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Securities, must not be sold to retail clients in the EEA and (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interests in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules. The Managers (or their affiliates) are required to comply with the PI Rules. In addition, by purchasing, or making or accepting an offer to purchase, any Securities (or a beneficial interest in such Securities) from the Issuer and/or the Managers, each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Managers that:

1. it is not a retail client in the EEA (as defined in the PI Rules);
2. whether or not it is subject to the PI Rules, it will not (a) sell or offer the Securities (or any beneficial interests therein) to retail clients in the EEA or (b) communicate (including the distribution of this document) or approve an invitation or inducement to participate in, acquire or underwrite the Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules), in any such case, other than (i) in relation to any sale or offer to sell Securities

(or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in any other circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell Securities (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Securities (or any beneficial interests therein) and is able to bear the potential losses involved in an investment in the Securities (or any beneficial interests therein) and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Securities (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Securities (or any beneficial interests therein) by investors in any relevant jurisdiction.

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

On 22 December 2014 CONSOB published Communication No. 0097966 (the "**CONSOB Communication**") concerning the distribution of complex products to Italian retail investors. Inter alia, the CONSOB Communication identifies certain types of products which any intermediary should refrain from distributing to Italian retail clients, since they may be considered as too difficult to understand and therefore not suitable. Reference is made also to financial products, like the Securities, which, when certain conditions are met or at the initiative of the issuer, are converted into shares or their nominal value is written down. Each intermediary is therefore required to comply with the CONSOB Communication and with any applicable laws and regulations concerning information duties vis-à-vis its clients in connection with the Securities.

SUITABILITY OF INVESTMENT

The Securities will not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that 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:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Offering Memorandum or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;

(iii) understands thoroughly the terms of the Securities and is familiar with the behaviour of financial markets;

(iv) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where pounds sterling (the currency for principal and Distribution payments) is different from the potential investor's currency; and

(v) is able to evaluate possible scenarios for economic, distribution rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Securities may be considered by eligible investors who are able to satisfy themselves that the Securities would constitute an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact such investment will have on the potential investor's overall investment portfolio.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Memorandum, unless otherwise specified, all references to "**dollars**", "**U.S. dollars**", "**U.S.$**", "**¢**" or "**cents**" are to the lawful currency of the United States, "**euros**" or "**€**" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, and "**pounds**", "**sterling**", "**£**", "**p**" or "**pence**" are to the lawful currency of the United Kingdom.

In this Offering Memorandum references to "**Moody's**" are to Moody's Investors Service Ltd.; references to "**Fitch**" are to Fitch Ratings Ltd.; and references to "**S&P**" are to Standard & Poor's Credit Market Services Europe Limited.

The Issuer maintains its financial books and records and prepares its financial statements in sterling in accordance with International Financial Reporting Standards ("**IFRS**") as approved by the International Accounting Standards Board ("**IASB**"), and interpretations issued by the IFRS Interpretations Committee ("**IFRIC**") of the IASB that, under European Regulations, are effective and available for early adoption on the Group's reporting date. The Group has complied with IFRS as issued by the IASB in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union.

In this Offering Memorandum, references to websites or uniform resource locators ("**URLs**") are inactive textual references and are included for information purposes only. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Offering Memorandum.

STABILISATION

In connection with the offering of the Securities, one or more of the Managers (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessary occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Forward-Looking Statements

This Offering Memorandum includes forward-looking statements. Examples of such forward-looking statements include, but are not limited to:

- projections or expectations of revenues, costs, profit (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;

- statements of plans, objectives or goals or those of the Group's management, including those related to products or services;

- statements of future economic performance; and

- statements of assumptions underlying such statements.

Words such as 'believes', 'anticipates', 'expects', 'intends', 'aims', 'plans', 'targets' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements are not statements of historical or current facts; they cannot be objectively verified, are speculative and involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. The Issuer cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Issuer or on the Issuer's behalf. Some of these factors, which could affect the Issuer's business, financial condition and/or results of operations, are considered in detail in "*Risk Factors*" in this Offering Memorandum.

Undue reliance should not be placed on forward-looking statements when making decisions with respect to the Issuer and/or the Securities. Investors and others should take into account the inherent risks and uncertainties of forward-looking statements and should carefully consider the foregoing non-exhaustive list of important factors. Forward-looking statements speak only as of the date on which they are made and are based on the knowledge, information available and views taken on the date on which they are made; such knowledge, information and views may change at any time.

Except as required by the UK Listing Authority or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertakings to release publicly any updates or revisions to any forward-looking statements contained in this Offering Memorandum to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Supplementary Offering Memorandum

Following the publication of the Offering Memorandum a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Memorandum. Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Offering Memorandum.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Memorandum prior to the Issue Date which is capable of affecting the assessment of the Securities, prepare a supplement to this Offering Memorandum. The Issuer has undertaken to the Managers that it will comply with section 87G of the FSMA.

Alternative Performance Measures

The financial data incorporated by reference in this Offering Memorandum, in addition to the conventional financial performance measures established by IFRS, contains certain alternative performance measures ("**APMs**") that are presented for the purposes of a better understanding of the Group's financial performance, cash flows and financial position. The relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method at page 306 and 307 of the Issuer's Annual Report for the year ended 31 December 2016, which is incorporated by reference herein (see "*Documents Incorporated by Reference"* below).

Such measures should not be considered as a substitute for those required by IFRS.

Table of Contents

Documents Incorporated by Reference 9

Risk Factors 10

Use of Proceeds 74

Overview of the Principal Features of the Securities 75

Terms and Conditions of the Securities 80

Overview of the Securities while in Global Form 107

Business Description 112

Taxation 117

Subscription and Sale 119

General Information 126

Documents Incorporated by Reference

The following documents which have previously been published or are published simultaneously with this Offering Memorandum and have been approved by the FCA or filed with it shall be incorporated in, and form part of, this Offering Memorandum:

(1) the Issuer's Annual Report for the year ended 31 December 2016 (which includes the audited consolidated annual financial statements of the Issuer), excluding the sentence "Please refer to our latest filings with the SEC (including, without limitation, our Annual Report on Form 20-F for the year ended 31 December 2016) for a discussion of certain risk factors and forward-looking statements" on page 303 and the sections entitled "Contact us" and "Key Dates" on page 308; and

(2) the Issuer's Annual Report for the year ended 31 December 2015 (which includes the audited consolidated annual financial statements of the Issuer), excluding the sections entitled "Risk factors" on pages 329 to 349 inclusive thereof and "Contact and other information" on page 350.

Any statement contained herein or in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Memorandum to the extent that a subsequent statement which is deemed to be incorporated by reference herein or contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise), provided, however, that such statement shall only form part of this Offering Memorandum to the extent that it is contained in a document all of the relevant portion of which is incorporated by reference by way of a supplement proposed in accordance with Article 16 of the Prospectus Directive. Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Offering Memorandum.

Copies of the documents incorporated by reference in this Offering Memorandum are available for viewing at: http://www.santander.co.uk/uk/about-santander-uk/investor-relations.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Memorandum which is capable of affecting the assessment of any Securities, prepare a supplement to this Offering Memorandum or publish a new Offering Memorandum for use in connection with any subsequent issue of Securities.

Certain information contained in the documents listed above has not been incorporated by reference in this Offering Memorandum. Such information is either (i) not considered by the Issuer to be relevant for prospective investors in the Securities or (ii) is covered elsewhere in this Offering Memorandum.

Risk Factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Securities. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Securities. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities.

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

Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Offering Memorandum have the same meanings in this section.

Risks Relating to the Business of the Issuer and the Group

The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel

The Group's continued success depends in part on the continued service of key members of the Group's management team. The ability to continue to attract, train, motivate and retain highly qualified and talented professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management, both at the Group's head office and in each of the Group's business units. If the Group or one of the Group's business units or other functions fails to staff its operations appropriately, or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, the Group's business, financial condition and results of operations, including control and operational risks, may be adversely affected.

In addition, the financial services industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on the Group's ability to hire or retain the most qualified employees. If the Group fails or is unable to attract and appropriately train, motivate and retain qualified professionals, the Group's business may also be adversely affected.

The Group is vulnerable to disruptions and volatility in the global financial markets

Over the past nine years, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to reduced liquidity, greater volatility (such as volatility in spreads) and, in some cases, a lack of price transparency on interbank lending rates. Uncertainties remain concerning the outlook and the future economic environment despite recent improvements in certain segments of the global economy, including the United Kingdom (the "**UK**"). There can be no assurance that economic conditions in these segments will continue to improve or that the global economic condition as a whole will improve significantly or at all. Such economic uncertainties could have a negative impact on the Group's business and results of operations. The acute economic risks in the eurozone are being addressed by on-going policy initiatives, and the prospects for many of the European economies are improving.

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.

In particular, the Group may face, among others, the following risks related to any future economic downturn:

- increased regulation of the Group's industry. Compliance with such regulation may increase the Group's costs, may affect the pricing of the Group's products and services, and limit the Group's ability to pursue business opportunities;

- reduced demand for the Group's products and services;

- inability of the Group's borrowers to comply fully or in a timely manner with their existing obligations;

- the process the Group uses to estimate losses inherent in the Group's credit exposure requires complex judgements, including forecasts of economic conditions and how such economic conditions may impair the ability of the Group's borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of the Group's estimates, which may, in turn, impact the reliability of the process and the sufficiency of the Group's loan loss allowances;

- the value and liquidity of the portfolio of investment securities that the Group holds may be adversely affected;

- any worsening of the global economic conditions may delay the recovery of the international financial industry and impact the Group's operating results, financial condition and prospects; and

- adverse macroeconomic shocks may negatively impact the household income of the Group's retail customers, which may adversely affect the recoverability of the Group's retail loans, and result in increased loan losses.

Financial markets in the past twelve months have been affected by a series of political events, including the UK's vote in June 2016 to leave the European Union (the "**EU**"), which caused significant volatility in the global stock and foreign exchange markets (for more information, see the risk factor entitled *'Exposure to UK political developments, including the outcome of the UK referendum on membership of the EU, could have a material adverse effect on the Group*') and there has been an increase in anti-EU sentiment in other EU member states (EU Member States). Further, there is significant uncertainty as to the respective legal and regulatory environments in which the Group will operate going forward as a result of the UK's vote to leave the EU. Such uncertainties have had, and may continue to have, a negative impact on macroeconomic conditions and our business, financial condition and results of operations, and there can be no assurance that the European and global economic environments will not continue to be affected by political developments, including elections in 2017 in key EU Member States (for more information, see the risk factor entitled '*The Group may suffer adverse effects as a result of the political, economic and sovereign debt tensions in the eurozone'*).

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Group, including the Group's ability to access capital and liquidity on financial terms acceptable to the Group, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates it pays on deposits to attract more customers and become unable to maintain certain liability maturities. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on the Group's interest margins, liquidity and profitability.

If all or some of the foregoing risks were to materialise, this could have a material adverse effect on the Group.

The Group's operating results, financial condition and prospects may be materially impacted by economic conditions in the UK

The Group's business activities are concentrated in the UK and the Group offers a range of banking and financial products and services to UK retail and corporate customers. As a consequence, the Group's operating results, financial condition and prospects are significantly affected by the general economic conditions in the UK.

The Group's financial performance is intrinsically linked to the UK economy and the economic confidence of consumers and businesses. The sustainability of the UK economic recovery, along with its concomitant impacts on the Group's profitability, remains a risk. Conversely, a strengthened UK economic performance may increase the possibility of a higher interest rate environment. In such a scenario, other market participants might offer more competitive product pricing resulting in increased customer attrition.

Adverse changes in global growth may pose the risk of a further slowdown in the UK's principal export markets which would have an adverse effect on the broader UK economy.

In addition, adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in UK or global economic conditions could reduce the recoverability and value of the Group's assets and require an increase in the level of provisions for bad and doubtful debts. Likewise, a significant reduction in the demand for the Group's products and services could negatively impact the Group's business and financial condition. UK economic conditions and uncertainties may have an adverse effect on the quality of the Group's loan portfolio and may result in a rise in delinquency and default rates. There can be no assurance that the Group will not have to increase the Group's provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond the Group's control. Material increases in the Group's provisions for loan losses and write-offs/charge-offs could have an adverse effect on the Group's operating results, financial condition and prospects.

The UK government has taken measures to address the rising and high level of national debt, including reducing its borrowing and public spending cuts. Credit quality could be adversely affected by a renewed increase in unemployment. Any related significant reduction in the demand for the Group's products and services could have a material adverse effect on the Group's operating results, financial condition and prospects.

Exposure to UK political developments, including the outcome of the UK referendum on membership of the EU, could have a material adverse effect on the Group

On 23 June 2016, the UK held a referendum on the UK's membership of the European Union (the "**UK EU Referendum**"). The result of the referendum's vote was to leave the EU, which creates a number of uncertainties within the UK, and regarding its relationship with the EU.

On 2 October 2016, the UK Prime Minister announced that her government would commence the exit process by the end of March 2017. The UK Supreme Court ruled on 24 January 2017 that commencement of the exit process must be approved by the UK Parliament. On 1 February 2017, the House of Commons voted to give the Prime Minister the power to notify under Article 50(2) of the Treaty on European Union, the UK's intention to withdraw from the EU. Once the exit process is triggered, a two year period of negotiation will begin to determine the new terms of the UK's relationship with the EU, after which period its EU membership will cease. These negotiations are expected to run in parallel to standalone bilateral negotiations with the numerous individual countries and multilateral counterparties with which the UK currently has trading arrangements by virtue of its membership of the EU. The timing of, and process for, such negotiations and the resulting terms of the UK's future economic, trading and legal relationships are uncertain.

While the longer term effects of the UK EU Referendum are difficult to predict, these are likely to include further financial instability and slower economic growth as well as higher unemployment and inflation, in the UK, continental Europe and the global economy, at least in the short to medium term. For instance, the UK could lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members and this could affect the attractiveness of the UK as a global investment centre and, as a result, could have a detrimental impact on UK growth. Potential further decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on our interest margins and adversely affect our profitability and prospects.

The UK EU Referendum has also given rise to calls for certain regions within the UK to preserve their place in the EU by separating from the UK, as well as the potential for other EU Member States to consider withdrawal. For example, the outcome of the UK EU Referendum was not supported by the majority of voters in Scotland, who voted in favour of remaining in the EU. This has revived the political debate on a second referendum on Scottish independence. These developments, or the perception that any of them could occur, may have a material adverse effect on economic conditions and the stability of financial markets, and could significantly reduce market liquidity and restrict the ability of key market participants to operate in certain financial markets (for more information, see the risk factor entitled "*The Group is vulnerable to disruptions and volatility in the global financial markets*").

Asset valuations, currency exchange rates and credit ratings may be particularly subject to increased market volatility. The major credit rating agencies have downgraded and changed their outlook to negative on the UK's sovereign credit rating following the UK EU Referendum. In addition, S&P Global Ratings and Moody's Investors Service affirmed the long-term credit ratings and changed the ratings outlooks of the operating companies of most major UK banks because of the medium term impact of political and market uncertainty (for more information, see the risk factor entitled '*An adverse movement in the Group's external credit rating would likely increase the Group's cost of funding, require the Group to post additional collateral or take* *other actions under some of the Group's derivative contracts and adversely affect the Group's interest margins and results of operations*').

In addition, the Group is subject to substantial EU-derived regulation and oversight. There is now significant uncertainty as to the respective legal and regulatory environments in which the Group will operate when the UK is no longer a member of the EU, causing potentially divergent national laws and regulations across Europe should EU laws be replaced, in whole or in part, by UK laws on the same (or substantially similar) issues. For example, the Group is in the process of implementing a number of key restructuring and strategic initiatives, such as the ring-fencing of its retail banking activities, all of which will be carried out throughout this period of significant uncertainty. This may impact the prospects for successful execution and impose additional pressure on management (for more information, see the risk factor entitled '*The Group is subject to substantial regulation and governmental oversight which could adversely affect the Group's business and operations*'). Operationally, the Group and other financial institutions may no longer be able to rely on the European passporting framework for financial services and could be required to apply for authorisation in multiple EU jurisdictions, the costs, timing and viability of which is uncertain. This uncertainty, and any actions taken as a result of this uncertainty, as well as new or amended rules, may have a significant impact on the Group's operations, profitability and business. In addition, the lack of clarity of the impact of the UK EU Referendum on foreign nationals' long-term residency permissions in the UK may make it challenging for the Group to retain and recruit adequate staff, which may adversely impact its business.

The UK political developments described above, along with any further changes in government structure and policies, may lead to further market volatility and changes to the fiscal, monetary and regulatory landscape to which the Group is subject and could have a negative adverse effect on the Group's financing availability and terms and, more generally, the Group's results, financial condition and prospects.

The Group is subject to regulatory capital and leverage requirements that could limit the Group's operations, and changes to these requirements may further limit and adversely affect the Group's operating results, financial condition and prospects

The Group is subject to capital adequacy requirements applicable to banks and banking groups under directly applicable EU legislation and as adopted by the Prudential Regulation Authority (the "**PRA**") of the Bank of England (the "**BoE**"). The Group is required to maintain a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets (instead of Core Tier 1 capital to risk weighted assets), Tier 1 capital to risk-weighted assets, total capital to risk-weighted assets and Tier 1 capital to total adjusted assets for leverage monitoring purposes. Any failure by the Group to maintain the Group's ratios above prescribed regulatory minimum levels may result in administrative actions or sanctions; these could potentially include requirements on the Group to cease all or certain lines of new business, to raise new capital resources or, in certain circumstances, a requirement for the Group's existing capital instruments (potentially including the Group's debt securities) to be subjected to bail-in or write down (for more information see the risk factor entitled '*Bail-in and write down powers under the Banking Act and the BRRD may adversely affect the Group's business and the value of securities it may issue'* for further details).

The Capital Requirements Directive IV (the "**CRD IV Directive**") and the Capital Requirements Regulation (the "**CRD IV Regulation**" and together with the CRD IV Directive, "**CRD IV**") implemented changes proposed by the Basel Committee on Banking Supervision (the "**Basel Committee**") to the capital adequacy framework, known as "Basel III" in the EU. The CRD IV Regulation is directly applicable in each member state of the EU (each a "**Member State**") and does not therefore require national implementing measures, whilst the CRD IV Directive has been implemented by Member States through national legislative processes. CRD IV was published in the Official Journal on 27 June 2013 and came into effect on 1 January 2014, with particular requirements expected to be fully effective by 2019. CRD IV substantially reflects the Basel III capital and liquidity standards and facilitates the applicable implementation timeframes. On 19 December 2013, the PRA published the initial version of its rules and supervisory statements associated with the implementation of CRD IV, which cover prudential rules for banks, building societies and investment firms. Certain issues, however, continue to be clarified in further binding technical standards to be adopted by the European Commission (the "**Commission**"), which creates some uncertainty as to the final level of capital requirements which will apply under CRD IV.

Under the "Pillar 2" framework, the PRA requires the capital resources of UK banks to be maintained at levels which exceed the base capital requirements prescribed by CRD IV and to cover relevant risks in their business. In addition, a series of capital buffers have been established under CRD IV and PRA rules to ensure a bank can withstand a period of stress. These buffers, which must be met by Common Equity Tier 1 capital, include the counter-cyclical capital buffer, sectoral capital requirements, a PRA buffer and the capital conservation buffer. The total size of the capital buffers will be informed by the results of the annual concurrent UK stress testing exercises. The BoE's approach to stress testing the UK banking system was outlined in October 2015. The BoE is aiming to develop an approach that is explicitly counter-cyclical, with the severity of the stress test and the associated regulatory capital buffers varying systematically with the state of the financial cycle. Furthermore, the framework is aiming to support a continued improvement in UK banks' risk management and capital planning capabilities, and the BoE expects participating UK banks to demonstrate sustained improvements in their capabilities over time. The PRA can take action if a bank fails to meet the required capital ratio hurdle rates in the stress testing exercise, and the banks which fail to do so will be required to take action to strengthen their capital position over an appropriate timeframe. If a bank does not meet expectations in its risk management and capital planning capabilities in the stress testing exercise, this may inform the setting of its capital buffers. Though the results of the PRA's 2015 stress test did not impact on the level of capital that the Group is required to hold, the PRA could, in the future, as a result of stress testing exercises (both in the UK and EU wide) and as part of the exercise of UK macro-prudential capital regulation tools, or through supervisory actions (beyond the changes described below), require UK banks and banking groups, including the Group, to increase their capital resources further.

The Financial Services Act 2012 empowers the Financial Policy Committee of the BoE (the "**FPC**"), which is a sub-committee of the Court of Directors of the BoE, to give directions to the PRA and the FCA so as to ensure implementation of macro-prudential measures intended to manage systemic risk. For the UK, the FPC sets the countercyclical capital buffer rate on a quarterly basis. The counter-cyclical buffer rate is currently set at 0 per cent.

The Financial Services Act 2012 provides the FPC with certain other macro-prudential tools for the management of systemic risk. Since 6 April 2015, these tools have included powers of direction relating to leverage ratios. In July 2015, the FPC made certain directions to the PRA in relation to the leverage ratio. In December 2015, the PRA issued a policy statement setting out how it would implement the FPC's direction and recommendations on the leverage ratio. Since

January 2016, all major UK banks and banking groups (including the Group) have been required to hold enough Tier 1 capital (75 per cent. of which must be Common Equity Tier 1 capital) to satisfy a minimum leverage requirement of 3 per cent. and enough Common Equity Tier 1 capital to satisfy a countercyclical leverage ratio buffer of 35 per cent. of each bank's institution-specific counter-cyclical capital buffer rate. The FPC also directed the PRA to require UK globally systemically important banks ("**G-SIBs**") and domestically systemically important banks, building societies and PRA-regulated investment firms (including the Group) to hold enough Common Equity Tier 1 capital to meet a supplementary leverage ratio buffer of 35 per cent. of the institution-specific G-SIB buffer rate or Systemic Risk Buffer ("**SRB**") for domestically systemically important banks. The supplementary leverage ratio buffer was implemented on 1 January 2016, in line with the G-SIB buffer rate imposed by the Financial Stability Board ("**FSB**"), with the SRB to be applicable from 1 January 2019. The FPC finalised and published its SRB framework on 25 May 2016. Systemic importance is measured using the total assets of ring-fenced bank sub-groups in scope of the SRB, with higher SRB rates applicable as total assets increase. In December 2016, the FRA published its statement of policy on the SRB relevant to ring-fenced bodies. The FPC can also direct the PRA to adjust capital requirements in relation to particular sectors through the imposition of sectoral capital requirements. Action taken in the future by the FPC in exercise of any of its powers could result in the regulatory capital requirements applied to us being increased.

Regulators in the UK and worldwide have also proposed that additional loss absorbency requirements should be applied to systemically important institutions to ensure that there is sufficient loss absorbing and recapitalisation capacity available in resolution. The EU Bank Recovery and Resolution Directive (the “**BRRD**”) requires that Member States ensure that EU banks meet a Minimum Requirement for Eligible Liabilities (“**MREL**”). The BRRD was transposed into UK law in January 2015, with the provisions on MREL taking effect from 1 January 2016. On 11 December 2015, the BoE published a consultation paper on its proposed statement of policy on its approach to setting MREL. The PRA also published a consultation paper and a draft supervisory statement on the relationship between MREL and capital and leverage buffers. On 9 November 2015, the FSB also published its final Total Loss-Absorbing Capital ("**TLAC**") standards for G-SIBs. The BoE has indicated that it will set MREL on a case-by-case basis, and that it intends to set MREL for G-SIBs as necessary to implement the TLAC standard. The BoE has also indicated that it intends to set consolidated MREL in 2016 no higher than institutions' current regulatory minimum capital requirements and consequently there should be no immediate change in regulatory requirements for loss absorbency capacity. For most institutions, the BoE proposes to set a final MREL conformance date of 1 January 2020, although it expects UK G-SIBs to meet the interim TLAC minimum requirement by 1 January 2019. The deadline for responses to the consultation papers was 11 March 2016. The final impact of the TLAC and MREL requirements is not yet known as this will depend on the way in which regulators of the Group choose to implement these requirements.

The PRA published a policy statement in November 2016 on the relationship between MREL and regulatory buffers, in which the PRA set out its policy, based on key aspects of the FSB standards, that CET1 used to meet the MREL requirement cannot also be used to meet the combined buffer, the PRA buffer or the leverage ratio buffers. However, a firm which does not have or expects that it will not have sufficient CET1, in addition to the CET1 counted towards its MREL, to meet its CRD IV combined buffer or the PRA buffer can expect enhanced supervisory action and to be required to prepare a capital restoration plan.

On 23 November 2016, the European Commission also published legislative proposals for amendments to CRD IV, the BRRD and the SRM and proposed an additional amending directive to facilitate the creation of a new asset class of “nonpreferred” senior debt. The package of reforms is aimed at further strengthening the resilience of EU credit institutions and is expected to enter into force (with certain exceptions) no earlier than 2019. Among other things, the proposed package of reforms includes proposals to introduce a binding 3% leverage ratio and a requirement for institutions that trade in securities and derivatives to have more risk-sensitive own funds. In line with the BoE’s Policy Statement and the PRA consultation, the proposed reforms also include measures to align the MREL requirements with the FSB TLAC standards. The proposed reforms are to be considered by the European Parliament and the Council of the EU and remain subject to change. The final package of reforms may not include all elements of the proposals and new or amended elements may be introduced. Until the proposals are in final form, it is uncertain how they will affect the Group or the holders of the Securities.

In addition, since 31 December 2014, the PRA has had the power under the Financial Services and Markets Act 2000 (“**FSMA**”) to make rules requiring a parent undertaking of a bank to make arrangements to facilitate the exercise of resolution powers, including a power to require a group to issue debt instruments. Such powers could have an impact on the liquidity of the Group’s debt instruments and could materially increase the Group’s cost of funding.

Since 1 January 2014, the Group has also been subject to certain recovery and resolution planning requirements (popularly known as "**living wills**") for banks and other financial institutions as set out in the PRA Rulebook. These requirements were updated in January 2015 to implement the recovery and resolution framework under the BRRD. The updated requirements impose more regular and detailed reporting obligations, including the requirement to submit recovery plans and resolution packs to the PRA and to keep them up to date.

In addition to the above, regulators in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes which could force the Group to comply with certain operational restrictions or take steps to raise further capital, or could increase the Group’s expenses, or otherwise adversely affect the Group’s operating results, financial condition and prospects. These changes, which could affect the Group as a whole, include the implementation of the Basel Committee on Banking Standards' ("**BCBS**") new market risk framework, which will take effect in 2019 and includes rules made as a result of the BCBS' fundamental review of the trading book. The new market risk framework includes:

- revisions to the standardised approach to credit risk (the “**Standardised Approach**”) to address certain weaknesses in the Standardised Approach identified by the Basel Committee;
- additional constraints on the use of internal model approaches for credit risk; and
- the development of the Standardised Approach floor on modelled credit risk capital requirements.

The BCBS has also announced proposals to revise the advanced measurement approach for operational risk and plans to finalise the calibration and design of the leverage ratio by the end of 2016. The BCBS consultation paper on proposed revisions to the leverage ratio framework closed on 6 July 2016.

These measures could have a material adverse effect on the Group's operating results, and consequently, on the Group's business, financial condition and prospects. There is a risk that changes to the UK's capital adequacy regime (including any increase to minimum leverage ratios) may result in increased minimum capital requirements, which could reduce available capital for business purposes and thereby adversely affect the Group's cost of funding, profitability and ability to pay dividends, continue organic growth (including increased lending), or pursue acquisitions or other strategic opportunities (alternatively the Group could restructure its balance sheet to reduce the capital charges incurred pursuant to the PRA's rules in relation to the assets held, or raise additional capital but at increased cost and subject to prevailing market conditions). In addition, changes to the eligibility criteria for Tier 1 and Tier 2 capital may affect the Group's ability to raise Tier 1 and Tier 2 capital and impact the recognition of existing Tier 1 and Tier 2 capital resources in the calculation of the Group's capital position. Furthermore increased capital requirements may negatively affect the Group's return on equity and other financial performance indicators.

The Group's business could be affected if the Group's capital is not managed effectively or if these measures limit the Group's ability to manage the its balance sheet and capital resources effectively or to access funding on commercially acceptable terms. Effective management of the Group's capital position is important to the Group's ability to operate its business, to continue to grow organically and to pursue the Group's business strategy.

The Group is subject to liquidity requirements that could limit the Group's operations, and changes to these requirements may further limit and adversely affect the Group's operating results, financial condition and prospects

As from 1 April 2013, the PRA took over the responsibility for micro-prudential regulation of banks and certain other financial institutions from the Financial Services Authority (the "**FSA**"). Before the implementation of CRD IV, the PRA operated its own liquidity rules based on the following elements:

- principles of self-sufficiency and adequacy of liquidity resources;
- enhanced systems and control requirements;
- quantitative requirements, including Individual Liquidity Adequacy Standards, coupled with a narrow definition of liquid assets; and
- frequent regulatory reporting.

Under CRD IV, banks are or will be required to meet two new liquidity standards, consisting of the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**") metrics, which are aimed to promote:

- 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
- 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 issued its policy statement on the transfer of the liquidity regime to the CRD IV standard, confirming that the existing regime under BIPRU 12 would cease to apply with effect from 1 October 2015, although certain of the BIPRU requirements are reflected in the new regime.

LCR

The LCR is intended to ensure that a bank maintains an adequate level of unencumbered, high quality liquid assets which can be used to offset the net cash outflows the bank could encounter under a short-term significant liquidity stress scenario.

The LCR was introduced in the UK on 1 October 2015. The PRA has opted to impose higher liquidity coverage requirements than the minimum required by CRD IV during the phase-in period to 1 January 2018. The current minimum requirement for UK banks is set at 90 per cent., rising by 10 percentage points to 100 per cent. on 1 January 2018. The Group currently meets the minimum requirements set by the PRA, however there can be no assurance that future changes to the applicable liquidity requirements would not have an adverse effect on the financial condition of the Group, the results of its operations and its prospects.

NSFR

In October 2014, the Basel Committee published its final standard of the NSFR which will take effect on 1 January 2018. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. Banks are expected to hold an NSFR of at least 100 per cent. on an on-going basis and report its NSFR at least quarterly. Ahead of its planned implementation on 1 January 2018, the NSFR will remain subject to an observation period.

There is a risk that implementing and maintaining existing and new liquidity requirements, such as through enhanced liquidity risk management systems, may incur significant costs, and more stringent requirements to hold liquid assets may materially affect the Group's lending business as more funds may be required to acquire or maintain a liquidity buffer, thereby reducing future profitability. This could in turn adversely impact the Group's operating results, financial condition and prospects.

Exposure to UK Government debt could have a material adverse effect on the Group

Like many other UK banks, the Group's principal banking entity Santander UK plc invests in debt securities of the UK Government largely for liquidity purposes. As of 31 December 2016, approximately 1 per cent. of the Group's total assets and 22 per cent. of its securities portfolio were comprised of debt securities issued by the UK Government. Any failure by the UK Government to make timely payments under the terms of these securities, or a significant decrease in their market value, will have a material adverse effect on the Group.

The Group may suffer adverse effects as a result of the political, economic and sovereign debt tensions in the eurozone

Conditions in the capital markets and the economy generally in the Eurozone, which, although improving recently, continue to show signs of fragility and volatility. Interest rate differentials among eurozone countries are affecting government finance and borrowing rates in those economies. This could have a material adverse effect on the Group's operating results, financial condition and prospects.

The UK EU Referendum caused significant volatility in the global stock and foreign exchange markets (for more information, see the risk factors entitled '*The Group is vulnerable to disruptions and volatility in the global financial markets*' and *'Exposure to UK political developments, including the outcome of the UK referendum on membership of the EU, could have a material adverse effect on the Group*'). It may have also encouraged anti-EU and populist parties in other EU Member States, raising the potential for other countries to seek to conduct referenda with respect to their continuing membership of the EU. On 4 December 2016, voters in Italy rejected constitutional reform proposals put forward by the Italian Prime Minister by way of referendum, which was generally regarded as portraying an anti-EU sentiment (the "**Italian Referendum**"). Following the results of the UK EU Referendum and the Italian Referendum, the risk of further instability in the eurozone cannot be excluded, particularly in Germany and France, which are due to hold elections in 2017.

The European Central Bank ("**ECB**") and European Council have taken actions with the aim of reducing the risk of contagion in the eurozone and beyond and improving economic and financial stability. These included the creation of the Open Market Transaction facility of the ECB and the decision by eurozone governments to progress towards the creation of a banking union. In January 2015, the ECB announced an extensive quantitative easing scheme which has been supplemented since that date and supported by a policy of lowering interest rates. Notwithstanding these measures, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by eurozone (and other) nations, which are under financial stress. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the recent economic crisis.

The high cost of capital for some European governments impacted the wholesale markets in the UK, which resulted in an increase in the cost of retail funding and greater competition in the savings market. In the absence of a permanent resolution of the eurozone crisis, conditions could deteriorate.

Although the Group conducts the majority of the its business in the UK, the Group has direct and indirect exposure to financial and economic conditions throughout the eurozone economies (as market instability surrounding Greece's membership of the eurozone demonstrated in the earlier part of 2015). While concerns relating to sovereign defaults or a partial or complete break-up of the European Monetary Union, including potential accompanying redenomination risks and uncertainties, seemed to have abated during 2014, such concerns resurfaced to some extent in the earlier part of 2015 with the election of a new government in Greece. In addition, general financial and economic conditions in the UK, which directly affect the Group's operating results, financial condition and prospects, may deteriorate as a result of conditions in the eurozone.

The Group is exposed to risks faced by other financial institutions

The Group routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumours or questions about the solvency of certain financial institutions and the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions the Group enters into expose the Group to significant credit risk in the event of default by one of the Group's significant counterparties. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on the Group.

Liquidity and funding risks are inherent in the Group's business and could have a material adverse effect on the Group

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to meet its obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business as carried out by the Group and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While the Group implements liquidity management processes to seek to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to eliminate completely these risks. Adverse constraints in the supply of liquidity, including inter-bank lending, which arose between 2009 and 2013, materially and adversely affected the cost of funding the Group's business. There can be no assurance that such constraints will not reoccur. Extreme liquidity constraints may affect the Group's operations and limit the Group's ability to fulfil its regulatory liquidity requirements, as well as limiting growth possibilities.

Disruption and volatility in the global financial markets could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to the Group.

The Group's cost of obtaining funding is directly related to prevailing market interest rates and to the Group's credit spreads. Increases in interest rates and the Group's credit spreads can significantly increase the cost of the Group's funding. Changes in the Group's credit spreads are market-driven, and may be influenced by market perceptions of the Group's creditworthiness. Changes to interest rates and the Group's credit spreads occur continuously and may be unpredictable and highly volatile.

If wholesale markets financing ceases to become available, or becomes excessively expensive, the Group may be forced to raise the rates the Group pays on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on the Group's ability to access liquidity and on its cost of funding (whether directly or indirectly).

Central banks around the world, including the U.S. Federal Reserve Bank and the ECB, made coordinated efforts to increase liquidity in the financial markets in response to the financial crisis and put in place additional facilities, by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and ensuring that currency swaps markets remain liquid. It remains uncertain for how long such measures will remain in place and to what extent they may be added to in the light of economic developments. In January 2015, the ECB announced an extensive quantitative easing scheme. The scheme comprised a €60bn-a-month bond-buying programme across the eurozone, such programme will potentially last until inflation in the eurozone meets the ECB target of 2 per cent. If these current facilities were rapidly removed or significantly reduced, this could have an adverse effect on the Group's ability to access liquidity and on the Group's funding costs. In the United States ("**U.S.**"), the Federal Reserve increased its policy interest rate by 25 basis points in December 2015 and again in March 2017, increasing its target range to 0.75 to 1 per cent. It may further increase the rate in the future.

In October 2013, the BoE updated its Sterling Monetary Framework to provide more transparent liquidity insurance support in exceptional circumstances. The Indexed Long-Term Repo Facility will now be available to support regular bank requirements for liquidity while the Discount Window Facility has been reinforced as support for banks experiencing idiosyncratic stress. The Collateralised Term Repo Facility will be made available to support markets in the event of a market wide liquidity stress.

The BoE and HM Treasury announced changes to the terms of the Funding for Lending Scheme ("**FLS**") on 28 November 2013 to re-focus its incentives in the revised scheme towards supporting business lending in 2014. The FLS extension allowed participants to draw from the scheme from February 2014 until January 2015, but household lending in 2014 no longer generated any additional borrowing allowances as it did in the initial scheme. Instead, additional allowances only reflected lending to businesses in 2014. Any initial borrowing allowances in the FLS extension already earned by household and business lending in 2013 were unaffected. The BoE and HM Treasury announced a second extension of the FLS on 2 December 2014, allowing participants to borrow from the FLS until January 2016 and a third extension on 30 November 2015 allowing participants to borrow from the FLS until January 2018. However, under the latest extension current participants cannot generate additional drawing allowances from their lending beyond the end of 2015. The extension is therefore only in relation to the drawdown window. As at 31 December 2016, the Group had drawn £3.2bn of UK treasury bills under the FLS.

On 4 August 2016, the BoE announced the Term Funding Scheme (the "**TFS**"), which allows participants to borrow central bank reserves in exchange for eligible collateral. The drawdown period under the TFS will run from 19 September 2016 to 28 February 2018. The TFS is being made available to banks and building societies that are participants in the BoE's Sterling Monetary Framework and signed up to the Discount Window Facility. At 31 December 2016, the Group had drawn £4.5bn under the TFS. Also on 4 August 2016, the BoE announced a quantitative easing programme to purchase £70 billion of assets, comprising £10 billion of corporate bonds and £60 billion of gilts.

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

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 liquidity and the cost of funding (whether directly or indirectly).

The Group aims for a funding structure that is consistent with the Group's assets, avoids excessive reliance on short term wholesale funding, attracts enduring commercial deposits and provides diversification in products and tenor. The Group therefore relies, and will continue to rely, on commercial deposits to fund a significant proportion of lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside the Group's control, such as general economic conditions and the confidence of commercial depositors in the economy, in general, and in the financial services industry, and the availability and extent of deposit guarantees, as well as competition between banks for deposits or competition with other products, such as mutual funds. A change in any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing the Group's ability to access commercial deposit funding on appropriate terms, or at all, in the future.

The Group anticipates that its customers will continue to make deposits (particularly demand deposits and short-term time deposits), and the Group intends to maintain its emphasis on the use of banking deposits as a source of funds. The short-term nature of some deposits could cause liquidity problems for the Group in the future if deposits are not made in the volumes it expects or are not renewed. If a substantial number of the Group's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Group may be materially and adversely affected.

A sudden or unexpected shortage of funds in the banking system could lead to increased funding costs, a reduction in the term of funding instruments or require the Group to liquidate certain assets. If these circumstances were to arise, this could have a material adverse effect on the Group's operating results, financial condition and prospects.

An adverse movement in the Group's external credit rating would likely increase the Group's cost of funding, require the Group to post additional collateral or take other actions under some of the Group's derivative contracts and adversely affect the Group's interest margins and results of operations

Credit ratings can in some instances affect the cost and other terms upon which the Group is able to obtain funding. Credit rating agencies regularly evaluate the Group, and their credit ratings of the Group and the Group's debt in issue are based on a number of factors, including the Group's financial strength and that of the UK economy and conditions affecting the financial services industry generally.

Any downgrade in the external credit ratings assigned to the Issuer, the Group or any of the Group's debt securities could have an adverse impact on the Group. In particular, such downgrade in the Group's credit ratings could increase the Group's borrowing costs and could require the Group to post additional collateral or take other actions under some of the Group's derivative contracts, and could limit the Group's access to capital markets and adversely affect the Group's commercial business. For example, a credit rating downgrade could adversely affect the Group's ability to sell or market certain of the Group's products, engage in certain longer-term transactions and derivatives transactions and retain the Group's customers, particularly customers who need a minimum rating threshold in order to invest.

In addition, under the terms of certain of the Group's derivative contracts, the Group may be required to maintain a minimum credit rating or otherwise the Group's counterparties may be able to terminate such contracts. Any of these results of a credit rating downgrade could, in turn, reduce the Group's liquidity and have an adverse effect on the Group, including the Group's operating results, financial condition and prospects. For example, the Group estimates that as at

31 December 2016, if Fitch, Moody's and S&P were concurrently to downgrade its long-term credit ratings by one notch, and thereby trigger a short-term credit rating downgrade, this could result in an outflow of £4.6bn of cash and collateral. A hypothetical two notch downgrade would result in a further outflow of £0.4bn of cash and collateral at 31 December 2016. These outflow requirements are however captured under the LCR regime.

However, while certain potential impacts are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, and assumptions about the potential behaviours of various customers, investors and counterparties. Actual outflows could be higher or lower than this hypothetical example, depending upon certain factors including any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from a loss of unsecured funding (such as from money market funds) or loss of secured funding capacity.

Although unsecured and secured funding stresses are included in the Group's stress testing scenarios and a portion of the Group's total liquid assets is held against these risks, it is still the case that a credit rating downgrade could have a material adverse effect on the Group. In addition, if certain counterparties terminated derivative contracts with the Group, and the Group was unable to replace such contracts, the Group's market risk profile could be altered.

Following the results of the UK referendum on EU membership, S&P Global Ratings and Moody's Investors Service affirmed the long-term credit ratings and changed the ratings outlooks of most major UK banks because of the medium term impact of political and market uncertainty. The Issuer's long-term debt is currently rated investment grade by the major rating agencies: Baa1 with negative outlook by Moody's, BBB with a stable outlook by S&P and A with a stable outlook by Fitch. Santander UK plc's long term debt is currently rated investment grade by the major ratings agencies. If a downgrade of any Group member's long-term credit ratings were to occur, it could also impact the short-term credit ratings of other members of the Group. Should there be any removal of systemic support by the UK Government, all things being equal, the impact on the Group's long-term credit-rating could potentially increase the cost of some of the Group's wholesale borrowing and the Group's ability to secure both long-term and short-term funding may be reduced.

Following the results of the UK referendum on EU membership, the UK's sovereign credit rating was downgraded by Fitch and S&P, and its outlook changed to negative by Moody's. Changes to the UK sovereign credit rating, or the perception that further changes may occur, could have a material adverse effect on the Group's operating results, financial condition, prospects and the marketability and trading value of the Group's securities. This might also impact on the Group's own credit rating, borrowing costs and the Group's ability to secure funding. Changes to the UK sovereign credit rating or the perception that further changes may occur could also have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment and/or reducing asset prices.

There can be no assurance that the credit rating agencies will maintain the Group's current credit ratings or outlooks. The Group's failure to maintain favourable credit ratings and outlooks could increase the Group's cost of funding and adversely affect the Group's interest margins, which could have a material adverse effect on the Group.

The Group's financial results are constantly exposed to market risk. The Group is subject to fluctuations in interest rates and other market conditions, which may materially adversely affect the Group

Market risk refers to the probability of variations in the Group's net interest income or in the market value of the Group's assets and liabilities due to volatility of interest rates, exchange rates or equity prices. Changes in interest rates would affect the following areas, among others, of the Group's business:

- net interest income;
- the volume of loans originated;
- the market value of the Group's securities holdings;
- gains from sales of loans and securities;
- the worsening pensions deficit; and
- gains and losses from derivatives.

Interest rates are highly sensitive to many factors beyond the control of the Group, including increased regulation of the financial sector, monetary policies, domestic and international economic and political conditions and other factors. Variations in interest rates could affect the Group's net interest income, which comprises the majority of its revenue, reducing its growth rate and potentially resulting in losses. This results from the different effect that a change in interest rates may have on the interest earned on the Group's assets and the interest paid on its borrowings. In addition, the Group may incur costs (which, in turn, will impact its results) as it implements strategies to reduce future interest rate exposures.

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 and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of the Group's customers to prepay or refinance fixed-rate loans, reduce the value of the Group's financial assets and reduce gains or require the Group to record losses on sales of the Group's loans or securities.

The Group is also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect the Group's earnings and value of the Group's assets and securities. The Group's capital is stated in pounds sterling and the Group does not fully hedge the Group's capital position against changes in currency exchange rates. Although the Group seeks to hedge most of the Group's currency risk, through hedging and purchase of cross-currency swaps, these hedges do not eliminate currency risk and the Group can make no assurance that the Group will not suffer adverse financial consequences as a result of currency fluctuations. Significant exchange rate volatility and the depreciation of the pound sterling in particular could have an adverse impact on the Group's results of operations and its ability to meet its U.S. dollar and euro-denominated obligations, and which could have a material adverse effect on the Group's operating results, financial condition and prospects.

The Group is also exposed to equity price risk in its investments in equity securities in the banking book and in the trading portfolio. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. The volatility of world equity markets, due to the continued economic uncertainty and sovereign debt tensions, has had a particularly strong impact on the financial sector. Continued volatility may affect the value of the Group's investments in equity securities and, depending on their fair value and future recovery expectations, could become a permanent impairment, which would be subject to write-offs against the Group's results. To the extent any of these risks materialise, the Group's net interest income or the market value of the Group's assets and liabilities could be adversely affected.

Market conditions have resulted in, and could continue to result in, material changes to the estimated fair values of the Group's financial assets. Negative fair value adjustments could have a material adverse effect on the Group's operating results, financial condition and prospects

In the past eight years, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. The Group has material exposures to securities, loans, derivatives and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then prevailing market conditions, may result in negative changes in the fair values of the Group's financial assets. In addition, the value ultimately realised by the Group on disposal may be lower than the current fair value. Any of these factors could require the Group to record negative fair value adjustments, which may have a material adverse effect on the Group's operating results, financial condition and prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets and in times of economic instability. In such circumstances, the Group's valuation methodologies require the Group to make assumptions, judgements and estimates in order to establish fair value.

This is a challenging task as reliable assumptions are difficult to make and are inherently uncertain. Moreover, valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, financial condition and prospects.

Failure to successfully implement and continue to improve the Group's credit risk management systems could materially and adversely affect the Group's business

As a commercial banking group, one of the main types of risks inherent in the Group's business is credit risk. For example, an important feature of the Group's credit risk management system is to employ the Group's own credit rating system to assess the particular risk profile of a customer. This system is primarily generated internally but, in the case of counterparties with a global presence, also builds off the credit assessment assigned by other Banco Santander group members. As this process involves detailed analyses of the customer or credit risk, taking into account both quantitative and qualitative factors, it is subject to human or IT systems errors. In exercising their judgement on current or future credit risk behaviour of the Group's customers, the Group's employees may not always be able to assign a correct credit rating, which may result in the Group being exposed to higher credit risks than indicated by the Group's risk rating system.

In addition, the Group has refined its credit policies and guidelines to address potential risks associated with particular industries or types of customers, such as affiliated entities and the Group's customers. However, the Group may not be able to detect all possible risks before they occur, or the Group's employees may not be able to effectively implement the Group's credit policies and guidelines due to limited tools available to the Group, which may increase the Group's credit risk. Failure to effectively implement, consistently follow or continuously refine the Group's credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for the Group, which could have a material adverse effect on the Group.

The Group is subject to various risks associated with the Group's derivative transactions that could have a material adverse effect on the Group

Certain Group entities enter into derivative transactions for trading purposes as well as for hedging purposes. The Group is subject to various risks associated with these transactions, including market risk, operational risk, basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or counterparty risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

Market practices and documentation for derivative transactions in the UK may differ from those in other countries. In addition, the execution and performance of these transactions depends on the Group's ability to develop adequate control and administration systems and to hire and retain qualified personnel. Moreover, the Group's ability to adequately monitor, analyse and report derivative transactions continues to depend, to a great extent, on the Group's information technology systems. This factor further increases the risks associated with these transactions and could have a material adverse effect on the Group.

Operational risks, including risks relating to data and information collection, processing, storage and security are inherent in the Group's business

Like other financial institutions with a large customer base, the Group manages and holds confidential personal information of customers in the conduct of its banking operations, as well as a large number of assets. Accordingly, the business of the Group depends on the ability to process a large number of transactions efficiently and accurately, and on the Group's ability to rely on the Group's people, digital technologies, computer and email services, software and networks, as well as the secure processing, storage and transmission of confidential and other information in the Group's computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to the Group's businesses and to the Group's ability to compete effectively. Losses can result from inadequate personnel, human error, inadequate or failed internal control processes and systems or from external events that interrupt normal business operations. The Group also faces the risk that the design of the Group's controls and procedures prove to be inadequate or are circumvented.

Although the Group works with its clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against information security risk, the Group routinely exchanges personal, confidential and proprietary information by electronic means, and the Group may be the target of attempted hacking. If the Group cannot maintain an effective data collection, management and processing system, the Group may be materially and adversely affected.

EU General Data Protection Regulation

The EU General Data Protection Regulation (the "**GDPR**") will have direct effect in all EU Member States from 25 May 2018 and will replace current EU data privacy laws. Although a number of basic existing principles will remain the same, the GDPR introduces new obligations on data controllers and rights for data subjects, including, among others:

- accountability and transparency requirements, which will require data controllers to demonstrate and record compliance with the GDPR and to provide more detailed information to data subjects regarding processing;
- enhanced data consent requirements, which includes "explicit" consent in relation to the processing of sensitive data;
- obligations to consider data privacy as any new products or services are developed and limit the amount of information collected, processed, stored and its accessibility;
- constraints on using data to profile data subjects;
- providing data subjects with personal data in a useable format on request and erasing personal data in certain circumstances; and
- reporting of breaches without undue delay (72 hours where feasible).

The GDPR also introduces new fines and penalties for a breach of requirements, including fines for serious breaches of up to the higher of 4% of annual worldwide turnover or €20m and fines of up to the higher of 2% of annual worldwide turnover or €10m (whichever is highest) for other specified infringements. The GDPR identifies a list of points to consider when imposing fines (including the nature, gravity and duration of the infringement).

The implementation of the GDPR will require substantial amendments to the Group's procedures and policies. The changes could adversely impact the Group's business by increasing its operational and compliance costs. Further, there is a risk that the measures will not be implemented correctly or that individuals within the business will not be fully compliant with the new procedures. If there are breaches of these measures, the Group could face significant administrative and monetary sanctions as well as reputational damage which may have a material adverse effect on its operations, financial condition and prospects.

Infrastructure and technology resilience

The Group takes protective measures and continuously monitors and develops its systems to safeguard the Group's technology infrastructure and data from misappropriation or corruption, but the Group's systems, software and networks nevertheless may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. Furthermore, the Group may be required to expend significant additional resources to modify the Group's protective measures or to investigate and remediate vulnerabilities or other exposures. There can be no assurance that the Group will not suffer material losses from operational risks in the future, including those relating to any security breaches.

Cyber security

In particular, the Group has in recent years seen computer systems of companies and organisations being targeted, not only by cyber criminals, but also by activists and rogue states. In common with other large UK financial institutions with a large customer base, the Group manages and holds confidential personal information of customers in the conduct of its banking operations, as well as a large number of assets. Accordingly the Group has been and continues to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. This included an incident in 2016 that resulted in the Group's customers experiencing slow performance logging in and performing transactions via the Group's digital channels (online and mobile banking services) and was caused by a denial of service attack, launched by an unknown external third party. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of the Group's information technology systems used to service its customers. As attempted attacks continue to evolve in scope and sophistication, the Group may incur significant costs in the Group's attempt to modify or enhance its protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to the customers of the Group. If the Group fails to effectively manage the Group's cyber security risk, e.g. by failing to update the Group's systems and processes in response to new threats, this could harm the Group's reputation and adversely affect the Group's operating results, financial condition and prospects through the payment of customer compensation, regulatory penalties and fines and/or through the loss of assets.

In addition, the Group may also be impacted by cyber-attacks against national critical infrastructures in the UK, for example, the telecommunications network. In common with other financial institutions the Group is dependent on such networks and any cyber-attack against these networks could negatively affect its ability to service its customers. As the Group does not operate these networks, it has limited ability to protect its business from the adverse effects of cyber-attack against them.

Further, the domestic and global financial services industry, including key financial market infrastructure, may be the target of cyber disruption and attack by cyber criminals, activists and rogue states looking to cause economic instability. The Group has limited ability to protect its business from the adverse effects of cyber disruption or attack against its counterparties and key financial market infrastructure. If such a disruption or attack were to occur it could cause serious operational and financial harm to the Group.

Procedure and policy compliance

The Group also manages and holds confidential personal information of customers in the conduct of the Group's banking operations. Although the Group has procedures and controls to safeguard personal information in the Group's possession, unauthorised disclosures could subject it to legal actions and administrative sanctions as well as damages that could materially and adversely affect its operating results, financial condition and prospects.

Further, the Group's businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter or prevent employee misconduct, and the precautions the Group takes to detect and prevent this activity may not always be effective.

The Group may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorised access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of the Group's systems could cause information, including data related to customer requests, to be lost or to be delivered to the Group's clients with delays or errors, which could reduce demand for the Group's services and products and could materially and adversely affect the Group.

Any failure to effectively improve or upgrade the Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group

The Group's business and its ability to remain competitive depends to a significant extent upon the functionality of the Group's information technology systems (including Partenon, the global banking information technology platform utilised by Santander UK plc and Banco Santander, S.A), and on the Group's ability to upgrade and expand the capacity of the Group's information technology on a timely and cost-effective basis. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between the Group branches and main data processing centres, are critical to the Group's business and the Group's ability to compete. The Group must continually make significant investments and improvements in the Group's information technology infrastructure in order to remain competitive. The Group cannot be certain that in the future it will be able to maintain the level of capital expenditure necessary to support the improvement, expansion or upgrading of its information technology infrastructure as effectively as the Group's competitors. This may result in a loss of the competitive advantages that the Group believes the Group's information technology systems provide. Any failure to effectively improve, expand or upgrade its information technology infrastructure and management information systems in a timely manner could have a material adverse effect on the Group.

The Group may be exposed to unidentified or unanticipated risks despite the Group's risk management policies, procedures and methods

The management of risk is an integral part of the Group's activities. The Group seeks to monitor and manage the Group's risk exposure through a variety of risk reporting systems. While the

Group employs a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating its risk exposure in all economic market environments or against all types of risk, including risks that the Group fails to identify or anticipate.

Some of the Group's qualitative tools and metrics for managing risk are based upon the Group's use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of the Group's risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors the Group does not anticipate or correctly evaluate in the Group's statistical models. This would limit the Group's ability to manage the Group's risks. The Group's losses thus could be significantly greater than the historical measures indicate. In addition, the Group's quantified modelling does not take all risks into account. The Group's more qualitative approach to managing those risks could prove insufficient, exposing the Group to material, unanticipated losses. The Group could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood. If existing or potential customers or counterparties believe the Group's risk management is inadequate, they could take their business elsewhere or to seek to limit their transactions with the Group. This could have a material adverse effect on the Group's reputation, operating results, financial condition and prospects.

Competition with other financial institutions could adversely affect the Group

The Group faces substantial competition in all parts of its business, including in originating loans and in attracting deposits, through its banking entities. The competition in originating loans comes principally from other domestic and foreign banks, mortgage banking companies, consumer finance companies, insurance companies and other lenders and purchasers of loans. The market for UK financial services is highly competitive and the Group faces substantial competition in all parts of its business. As such, the Group constantly monitors competition, which arises from a number of financial institutions of different sizes and with a range of business models. Moreover, the recent financial crisis continues to reshape the banking landscape in the UK, particularly the financial services and mortgage markets, reinforcing both the importance of a retail deposit funding base and the strong capitalisation of an institution. Lenders have moved increasingly towards a policy of concentrating on the highest quality customers and there is strong competition for these customers.

Additionally, a large number of new entrants are increasingly entering the UK financial services market place. Again the Group identifies and closely monitors this set of new entrants and takes account of this in its management actions. Their arrival has further intensified competition as they seek to gain market share in a number of banking sector areas, including for example payments, investments, lending, foreign exchange and data aggregators.

The Group expects competition to intensify in response to consumer demand, technological changes, the potential impact of consolidation, regulatory actions and other factors. The Financial Services Act 2012 amended the FSMA with effect from 1 April 2013 to include in the FCA's operational objectives the objective of promoting effective competition in the interests of consumers in the markets for regulated financial services. Since 1 April 2015, the FCA has also been able to use concurrent competition powers under the Enterprise Act 2002 and the Competition Act 1998 to promote competition. A strong political and regulatory will to foster consumer choice in financial services could lead to even greater competition. For further detail, see the risk factor entitled "*The Group is subject to substantial regulation and governmental oversight which could adversely affect the Group's business and operations*".

If financial markets remain unstable, financial institution consolidation may continue (whether as a result of the UK Government taking ownership and control over other financial institutions in the UK or otherwise). Financial institution consolidation could also result from the UK Government's recent disposals of stakes in financial institutions previously controlled and any future disposals of retained stakes in other financial institutions. Such consolidation could adversely affect the Group's operating results, financial condition and prospects. There can be no assurance that this increased competition will not adversely affect the Group's growth prospects, and therefore its operations. The Group also faces competition from non-bank competitors, such as supermarkets and department stores for some credit products, and generally from other loan providers.

The Group considers competition in its management actions, as appropriate, such as pricing and product decisions. Increasing competition could mean that the Group increases its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on the Group, including the Group's profitability. It may also negatively affect the Group's business results and prospects by, among other things, limiting the Group's ability to increase its customer base and expand the Group's operations and increasing competition for investment opportunities.

While the Group has successfully increased its customer service levels in recent years, should these levels ever be perceived by the market to be materially below those of the Group's competitor financial institutions, the Group could lose existing and potential business. If the Group is not successful in retaining and strengthening customer relationships, it may lose market share, incur losses on some or all of its activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on the Group's operating results, financial condition and prospects.

The Group's ability to maintain the Group's competitive position depends, in part, on the success of new products and services the Group offers its customers and its ability to continue offering products and services from third parties, and the Group may not be able to manage various risks it faces as it expands the Group's range of products and services that could have a material adverse effect on the Group

The success of the Group's operations and the Group's profitability depends, in part, on the success of new products and services the Group offers its customers. However, the Group cannot guarantee that the Group's new products and services will be responsive to customer demands or successful once they are offered to the Group's customers, or that they will be successful in the future. In addition, the Group's customers' needs or desires may change over time, and such changes may render the Group's products and services obsolete, outdated or unattractive, and the Group may not be able to develop new products that meet its customers' changing needs. If the Group cannot respond in a timely fashion to the changing needs of its customers, it may lose customers, which could in turn materially and adversely affect the Group.

As the Group expands the range of its products and services, some of which may be at an early stage of development in the UK market, the Group will be exposed to new and potentially increasingly complex risks, including conduct risk and development expenses. The Group's employees and risk management systems, as well as its experience and that of the Group's partners, may not be sufficient or adequate to enable the Group to properly handle or manage such risks. In addition, the cost of developing products that are not launched is likely to affect the Group's operating results.

Further, the Group's customers may raise complaints and seek redress if they consider that they have suffered loss from the Group's products and services; for example, as a result of any alleged misselling or incorrect application of the terms and conditions of a particular product. This could in turn subject the Group to risks of potential legal action by the Group's customers and intervention by the Group's regulators. For further detail on the Group's legal and regulatory risk exposures, see the risk factors entitled "*The Group is exposed to risk of loss from legal and regulatory proceedings*" and "*Potential intervention by the FCA, the PRA, the CMA or an overseas regulator may occur, particularly in response to customer complaints*".

Any or all of the above factors, individually or collectively, could have a material adverse effect on the Group.

If the level of non-performing loans increases or the credit quality of the Group's loans deteriorates in the future, or if the Group's loan loss reserves are insufficient to cover loan losses, this could have a material adverse effect on the Group

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's business. Non-performing or low credit quality loans have in the past, and can continue to, negatively impact the Group's operating results, financial condition and prospects. In particular, the amount of the Group's reported non-performing loans may increase in the future as a result of growth in the Group's total loan portfolio, including as a result of loan portfolios that the Group may acquire in the future, or factors beyond the Group's control, such as adverse changes in the credit quality of the Group's borrowers and counterparties, a general deterioration in the UK or global economic conditions, the impact of political events, events affecting certain industries or events affecting financial markets and global economies. The Group cannot be sure that it will be able to effectively control the level of impaired loans in, or the credit quality of, the Group's total loan portfolio.

The Group's current loan loss reserves may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of the Group's total loan portfolio. The Group's loan loss reserves are based on the Group's current assessment of and expectations concerning various factors affecting the quality of the Group's loan portfolio. These factors include, among other things, the Group's borrowers' financial condition, repayment abilities and repayment intentions, the realisable value of any collateral, the prospects for support from any guarantor, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond the Group's control. As a result, there is no precise method for predicting loan and credit losses, and the Group cannot provide any assurance that the Group's current or future loan loss reserves will be sufficient to cover actual losses.

If the Group's assessment of and expectations concerning the above mentioned factors differ from actual developments, if the quality of the Group's total loan portfolio deteriorates, for any reason, including the increase in lending to individuals and small and medium enterprises, the volume increase in the credit card portfolio and the introduction of new products or if the future actual losses exceed the Group's estimates of incurred losses, the Group may be required to increase the Group's loan loss reserves, which may adversely affect the Group. If the Group is unable to control or reduce the level of the Group's non-performing or poor credit quality loans, this could have a material adverse effect on the Group.

Interest rates payable on a significant portion of the Group's outstanding mortgage loan products fluctuate over time due to, among other factors, changes in the BoE base rate. As a result borrowers with variable interest rate mortgage loans are exposed to increased monthly payments when the related mortgage interest rate adjusts upward. Similarly, borrowers of mortgage loans with fixed or introductory rates adjusting to variable rates after an initial period are exposed to the risk of increased monthly payments at the end of this period. Over the last few years both variable and fixed interest rates have been at relatively low levels, which has benefited borrowers of new loans and those repaying existing variable rate loans regardless of special or introductory rates. Future increases in borrowers' required monthly payments may result in higher delinquency rates and losses in the future. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. These events, alone or in combination, may contribute to higher delinquency rates and losses for the Group.

The Group's loan portfolio is subject to risk of prepayment, which could have a material adverse effect on the Group

The Group's loan portfolio is subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a low interest rate environment, prepayment activity increases, which reduces the weighted average lives of the Group's earning assets and could have a material adverse effect on the Group. The Group would also be required to amortise net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant adverse impact on credit card and collateralised mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in the Group's funding obligations and reinvestment at lower yields. Prepayment risk is inherent to the Group's commercial activity and an increase in prepayments could have a material adverse effect on the Group.

The value of the collateral, including real estate, securing the Group's loans may not be sufficient, and the Group may be unable to realise the full value of the collateral securing its loan portfolio

The value of the collateral securing the Group's loan portfolio may significantly fluctuate or decline due to factors beyond its control, including macroeconomic factors affecting the UK's economy. The residential mortgage loan portfolio of the Group constitutes one of the principal assets, comprising 77 per cent. of the Group's loan portfolio as of 31 December 2016. As a result, the Group is highly exposed to developments in the residential property market in the UK.

In the near-term the outlook remains positive, with house purchase activity supported by positive economic fundamentals driving consumer demand, including low mortgage rates, healthy consumer confidence levels, falling unemployment and positive real earnings growth. Any increase in house prices may be limited should real earnings growth weaken. The depth of the previous house price declines as well as the continuing uncertainty as to the extent and sustainability of the UK economic recovery will mean that losses could be incurred on loans should they go into possession.

The value of the collateral securing the Group's loan portfolio may also be adversely affected by force majeure events such as natural disasters like floods or landslides. Any force majeure event may cause widespread damage and could have an adverse impact on the economy of the affected region and may therefore impair the asset quality of the Group's loan portfolio in that area.

The Group may also not have sufficiently up-to-date information on the value of collateral, which may result in an inaccurate assessment for impairment losses of the Group's loans secured by such collateral. If any of the above were to occur, the Group may need to make additional provisions to cover actual impairment losses of the Group's loans, which may materially and adversely affect the Group's operating results, financial condition and prospects.

If the Group is unable to manage the growth of its operations, this could have an adverse impact on the Group's profitability

The Group allocates management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring its businesses when necessary.

From time to time, the Group evaluates acquisition and partnership opportunities that the Group believes could offer additional value to its shareholders and are consistent with the Group's business strategy. However, the Group may not be able to identify suitable acquisition or partnership candidates, and it may not be able to acquire promising targets or form partnerships on favourable terms or at all. Furthermore preparations for acquisitions that the Group does not complete can be disruptive. The Group bases its assessment of potential acquisitions and partnerships on limited and potentially inexact information and on assumptions with respect to value, operations, profitability and other matters that may prove to be incorrect. The Group's ability to benefit from any such acquisitions and partnerships will depend in part on the Group's successful integration of those businesses. Such integration entails significant risks such as challenges in retaining the customers and employees of the acquired businesses, unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims. The Group can give no assurances that its expectations with regards to integration and synergies will materialise.

The Group also cannot provide assurance that it will, in all cases, be able to manage its growth effectively or deliver its strategic growth decisions, including its ability to:

- manage efficiently the Group's operations and employees of expanding businesses;

- maintain or grow the Group's existing customer base;

- assess the value, strengths and weaknesses of investment or acquisition candidates;

- finance strategic opportunities, investments or acquisitions;

- fully integrate strategic investments, or newly-established entities or acquisitions, in line with the Group's strategy;

- align the Group’s current information technology systems adequately with those of an enlarged group;
- apply the Group's risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage the Group’s growth effectively, including any or all of the above challenges associated with the Group’s growth plans, could have a material adverse effect on the Group’s operating results, financial condition and prospects.

In addition, any acquisition or venture could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies.

Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond the Group’s control. Any or all of these factors, individually or collectively, could have a material adverse effect on the Group.

Goodwill impairments may be required in relation to acquired businesses

The Group has made business acquisitions in recent years and may make further acquisitions in the future. It is possible that the goodwill which has been attributed, or may be attributed, to these businesses may have to be written-down if the Group’s valuation assumptions are required to be reassessed as a result of any deterioration in their underlying profitability, asset quality and other relevant matters. Impairment testing in respect of goodwill is performed annually, and more frequently if there are impairment indicators present, and comprises a comparison of the carrying amount of the cash-generating unit with its recoverable amount. Goodwill impairment does not however affect the Group’s regulatory capital. Whilst no impairment of goodwill was recognised in 2015 or 2016, there can be no assurances that the Group will not have to write down the value attributed to goodwill in the future, which would adversely affect the Group’s results and net assets.

The Group is subject to substantial regulation and governmental oversight which could adversely affect the Group’s business and operations

Supervision and new regulation

As a group containing financial institutions, the Group is subject to extensive financial services laws, regulations, administrative actions and policies in the UK, the EU and each other location in which the Group operates, including in the U.S. As well as being subject to UK regulation, as part of the Banco Santander group, the Group is also impacted indirectly through regulation by the Banco de España (the Bank of Spain) and, at a corporate level, by the ECB (following the introduction of the Single Supervisory Mechanism in November 2014). The statutes, regulations and policies to which the Group is subject may be changed at any time. In addition, the interpretation and the application of those laws and regulations by regulators are also subject to change. Extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect the Group’s business, including Spain, the U.S., the EU, Latin America and other jurisdictions, and new regulations are in the process of being implemented. The manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the UK, the Group may face higher compliance costs. Any legislative or regulatory actions and any required changes to the Group's business operations resulting from such legislation and regulations could result in significant loss of revenue, limit the Group's ability to pursue business opportunities in which the Group might otherwise consider engaging and limit the Group's ability to provide certain products and services. They may also affect the value of assets that the Group holds, requiring the Group to increase its prices and therefore reduce demand for the Group's products, impose additional compliance and other costs on the Group or otherwise adversely affect the Group's business. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect the Group.

During recent periods of market turmoil, there have been unprecedented levels of government and regulatory intervention and scrutiny, and changes to the regulations governing financial institutions and the conduct of business. In addition, in light of the financial crisis, regulatory and governmental authorities are considering, or may consider, further enhanced or new legal or regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. This intensive approach to supervision has been maintained by the PRA and the FCA (as successor regulatory authorities to the FSA).

Recent proposals and measures taken by governmental, tax and regulatory authorities and further future changes in supervision and regulation, in particular in the UK, which are beyond the Group's control, could materially affect the Group's business, the value of assets and operations and result in significant increases in operational costs. Products and services offered by the Group could also be affected. Changes in UK legislation and regulation to address the stability of the financial sector may also affect the competitive position of the Group, particularly if such changes are implemented before international consensus is reached on key issues affecting the industry. Although the Group works closely with its regulators and continually monitors the situation, future changes in law, regulation, fiscal or other policies can be unpredictable and are beyond the Group's control. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the Group's business.

Banking reform

On 18 December 2013, the Financial Services (Banking Reform) Act (the "**Banking Reform Act**") was enacted. The Banking Reform Act implements the recommendations of the Independent Commission on Banking (the "**ICB**") and of the Parliamentary Commission on Banking Standards, including:

- establishing a ring-fencing framework under FSMA pursuant to which UK banking groups that hold significant retail deposits are required to separate their retail banking activities from their wholesale banking activities by 1 January 2019;

- introducing a Senior Managers Regime and Certification Regime, replacing the Approved Persons Regime established under FSMA (as amended by the Financial Services Act 2012);

- introducing a new criminal offence for reckless misconduct in the management of a bank;

- establishing a new Payment Systems Regulator; and
- amending the Banking Act 2009 (the "**Banking Act**") to include a bail-in stabilisation power forming part of the special resolution regime.

For further information, see the risk factor entitled "*Bail-in and write-down powers under the Banking Act and the BRRD may adversely affect the Group's business and the value of securities it may issue*".

The ring-fencing provisions introduced into FSMA by the Banking Reform Act have been supplemented by two statutory instruments that define the ring-fence perimeter. The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 defines the UK banks that are subject to the ring-fencing requirements (a ring-fenced bank) and the core deposits (broadly deposits from individuals and small businesses) that must be held within a ring-fenced bank. The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 defines the activities that a ring-fenced bank is prohibited from undertaking, including dealing in investments or commodities as principal, incurring exposures to certain financial institutions and maintaining non-EEA branches or holding participating interests on non-EEA undertakings, subject in each case to limited exceptions. The ring-fencing provisions of FSMA require the PRA to make ring-fencing rules that essentially set the ring-fence height and are designed to ensure, as far as reasonably practicable, that a ring-fenced bank is not adversely affected by the acts or omissions of, and would be able to continue on the insolvency of, other members of its group and is able to take decisions independently of other members of its group in carrying on its business.

On 7 July 2016, the PRA published a policy statement (PS20/16) entitled "*The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures*" containing final ring-fencing rules ahead of the implementation date for ring-fencing, 1 January 2019. The PRA expects firms to finalise their ring-fencing plans and highlight any changes as a result of the policy statement to the PRA. The PRA will keep the policy under review to assess whether changes may be required as a result of any regulatory change following the UK's exit from the EU.

Finally, the Banking Reform Act introduced a new form of transfer scheme, the ring-fencing transfer scheme, under Part VII of FSMA to enable UK banks to implement the ring-fencing requirements. This is a court process that requires the PRA to approve the scheme (in consultation with the FCA) and provide a certificate of adequate financial resources in relation to the transferee and an independent expert (approved by the PRA, after consultation with the FCA) to provide a scheme report that any adverse effect on persons affected by the scheme is not greater than is necessary to achieve the ring-fencing purposes of the scheme. The PRA published its final statement of policy on its approach to ring-fencing transfer schemes on 4 March 2016.

The Group is subject to the ring-fencing requirement under the Banking Reform Act and, as a consequence, the Group will need to separate its core activities from its prohibited activities. The Group continues to work closely with regulators on developing its business and operating model to comply with the ring-fencing requirements and submitted revised plans to the PRA and the FCA for the implementation of its ring-fencing model. The model that the Group will implement will entail a legal and organisational restructuring of the Group's business and operations including transfers of customers and transactions through a ring-fencing transfer scheme. Under the latest plan submitted by the Group the ring-fenced bank will serve retail, commercial and corporate clients, adopting a "wide" ring-fence structure, retaining the majority of its operations within one ring-fenced bank and transferring any excluded activities outside of the ring-fenced group.

The Group will continue to monitor the wider market and regulatory environment, including developments from the implementation of the result of the UK EU Referendum, and will assess any necessary changes to the current implementation plan. The plan remains subject to regulatory and court approvals and other various authorisations and its timing and relevant actions may be subject to change due to such market and regulatory environment and required approvals.

The restructuring of the Group's business, the implementation of the legal entity structure and the ring-fencing scheme will take a substantial amount of time and cost which together with the required changes to the business model and the operational, legal and execution risks involved may have a material adverse effect on its business, operating results, financial condition, profitability and prospects.

EU fiscal and banking union

The project of achieving a European banking union was launched in the summer of 2012. Its main goal is to resume progress towards a European single market for financial services by restoring confidence in the European banking sector and ensuring the proper functioning of monetary policy in the eurozone.

The European banking union is expected to be achieved through new harmonised banking rules (in a single rulebook) and a new institutional framework with stronger systems for both banking supervision and resolution that will be managed at a European level. Its two main pillars are the Single Supervisory Mechanism ("**SSM**") and the Single Resolution Mechanism ("**SRM**").

The SSM (comprised of both the ECB and the national competent authorities) is designed to assist in making the banking sector more transparent, unified and safer. In accordance with Article 104 of the CRD IV Directive, as implemented by Article 68 of Law 10/2014, and similarly Article 16 of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (the "**SSM Regulation**"), the ECB fully assumed its new supervisory responsibilities within the SSM, in particular direct supervision of the 129 largest banks (as of 31 March 2016) in the Eurozone including Banco Santander, S.A., on 4 November 2014. In preparation for this step, between November 2013 and October 2014, the ECB conducted, together with national supervisors, a comprehensive assessment of 130 banks, which together hold more than 80 per cent. of eurozone banking assets. The exercise consisted of three elements: (i) a supervisory risk assessment, which assessed the main balance sheet risks including liquidity, funding and leverage; (ii) an asset quality review, which focused on credit and market risks; and (iii) a stress test to examine the need to strengthen capital or take other corrective measures.

The SSM represents a significant change in the approach to bank supervision at a European and a global level. The SSM has resulted in the direct supervision of 129 eurozone financial institutions (as discussed above) and indirect supervision of around 3,500 financial institutions. The new supervisor is one of the largest in the world in terms of assets under supervision. In the coming years, the SSM is expected to work to establish a new supervisory culture importing best practices from the 19 supervisory authorities that will be part of the SSM. Several steps have already been taken in this regard such as the recent publication of supervisory guidelines and the approval of the Regulation (EU) No 468/2014 of the ECB of 16 April 2014, establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (the "**SSM Framework Regulation**"). In addition, this new body represents an extra cost for the financial institutions that will fund it through payment of supervisory fees.

Other EU Member States are able to establish close co-operation with the ECB in which case the ECB could become responsible for the authorisation and supervision of credit institutions in such Member States.

The other main pillar of the EU banking union is the SRM, the main purpose of which is to ensure a prompt and coherent resolution of failing banks in Europe at minimum cost for the taxpayers and the economy. Regulation (EU) No. 806/2014 of the European Parliament and the Council of the EU (the "**SRM Regulation**"), which was passed on 15 July 2014, and became effective from 1 January 2015, establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the SRM and Single Resolution Fund ("**SRF**"). Under an intergovernmental agreement ("**IGA**") signed by 26 EU Member States on 21 May 2014, contributions by banks to the SRF raised at national level will be transferred to the SRF. The new Single Resolution Board ("**SRB**"), which is the central decision-making body of the SRM, started operating from 1 January 2015 and fully assumed its resolution powers on 1 January 2016. The SRB is responsible for managing the SRF and its mission is to ensure that credit institutions and other entities under its remit, which face serious difficulties, are resolved effectively with minimal costs to tax-payers and the real economy. The SRF is funded by contributions from European banks in accordance with the methodology approved by the Council of the EU (the "Council"). The SRF is intended to reach a total amount of €55 billion by 2024 and to be used as a separate backstop only after an 8 per cent. bail-in of a bank's liabilities and own funds has been applied to cover capital shortfalls (in line with the BRRD).

By allowing for the consistent application of EU banking rules through the SSM and the SRM, the European banking union is expected to help resume momentum towards European economic and monetary union. In order to complete such union, a single deposit guarantee scheme is still needed. This is the subject of continued negotiation by European leaders to ensure further progress is made in European fiscal, economic and political integration.

Regulations adopted towards achieving a banking and/or fiscal union in the EU and decisions adopted by the ECB in its capacity as Banco Santander, S.A.'s main supervisory authority may have a material impact on the Group's business, financial condition and results of operations.

European Structural Reform

On 29 January 2014, the Commission published proposals on structural measures to improve the resilience of EU credit institutions which included potential separation of certain trading activities from retail banking activities and a ban on proprietary trading. The proposal currently contemplates that Member States that have already implemented ring-fencing legislation, may apply for a derogation from the separation of trading activities provisions included in the proposals if they can satisfy the Commission that such local legislation meets the objectives and requirements set out in the EU proposal. On 7 January 2015, the European Parliament's

Committee on Economic and Monetary Affairs published a draft report proposing amendments to the Commission's proposal, including a proposed removal of the derogation. The Council published its general approach on the proposal in June 2015. The European Parliament and the Council are currently considering the Commission proposal and will seek to achieve political agreement on the proposals. Notwithstanding the proposed derogation referred to above, the adoption of this proposal in its current, or in an amended, form may require further changes to the Group's structure and business.

Other regulatory reforms adopted or proposed in the wake of the financial crisis

On 16 August 2012, the EU regulation on over-the-counter ("**OTC**") derivatives, central counterparties and trade repositories, referred to as the European Market Infrastructure Regulation ("**EMIR**") (formally known as Regulation (EU) No 648/2012 of the European Parliament and the Council on Over-The-Counter Derivatives, Central Counterparties and Trade Repositories), entered into force. EMIR introduced a number of requirements, including clearing obligations for certain classes of OTC derivatives, margin requirements for non-centrally cleared derivatives and various reporting and disclosure obligations. Certain details remain to be clarified in further binding technical standards to be adopted by the Commission, which creates some uncertainty as to the final impact on the Group, however, the implementation of EMIR has already led and may yet lead to changes which may negatively impact the Group's profit margins, require it to adjust its business practices or increase its costs (including compliance costs).

The revised and re-enacted Markets in Financial Instruments legislation, which replaces the existing MiFID framework and comprises the Directive 2014/65 of the European Parliament and of the Council, of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU ("**MiFID2**") and the Regulation 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 ("**MiFIR**"), the substantive provisions of which will be applicable on 3 January 2018, will introduce an obligation to trade certain classes of OTC derivative contracts on trading venues. Certain details remain to be clarified in further binding technical standards to be adopted by the Commission. Although the full impact of MiFID2 and MIFID on the Group is not yet known, MiFID2 and MiFIR may lead to changes which negatively impact the Group's profit margins, require it to adjust its business practices or increase its costs (including compliance costs).

U.S. Regulation

In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") enacted in 2010, has been implemented in part and continues to be implemented by various U.S. federal regulatory agencies. The Dodd-Frank Act, among other things, imposes a new regulatory framework on swap transactions, including swaps of the sort that the Group enters into, requires regulators to adopt new rules governing the retention of credit risk by securitisers or originators of securitisations and significantly expands the coverage and scope of regulations that limit affiliate transactions within a banking organisation. Over 2012-2015, the U.S. Commodity Futures Trading Commission (the "**CFTC**") and the U.S. Prudential Regulators adopted a host of new regulations for swaps markets, including swap dealer registration, business conduct, mandatory clearing, exchange trading and margin regulations. Most of these regulations are either already effective or will come into effect in 2016. Abbey National Treasury Services plc, a subsidiary of the Issuer which became provisionally registered as a swap dealer with the CFTC on 4 November 2013, is currently subject to these regulations for its U.S. facing swaps activities. These rules have already increased and could continue to increase the costs associated with the swaps business of the Group. In addition, certain cross-border regulatory conflicts could adversely affect the profitability of the swaps business of the Group by reducing the range of counterparties with which it can trade effectively.

In October 2014, U.S. regulators adopted a joint final rule requiring sponsors of asset-backed securitisation transactions, which would include Santander UK plc in relation to its residential mortgage-backed securities programmes, to retain 5 per cent. of the credit risk of the assets subject to the securitisation. At a general level, the rule permits sponsors to satisfy the risk retention requirement through the acquisition and retention of either 5 per cent. (measured by fair value) of the most subordinated interest in the securitisation, or 5 per cent. (measured by nominal value) of each tranche of interests issued by the securitisation, or some combination of the two. The rule also permits certain exceptions and methods of compliance in respect of specific types of asset-backed securities transactions. The final rule took effect for residential mortgage-backed securities transactions on 24 December 2015, and on 24 December 2016 for other securitisation transactions.

Within the Dodd-Frank Act, the so-called Volcker Rule prohibits “banking entities”, including the Group, from engaging in certain forms of proprietary trading or from sponsoring or investing in certain covered funds, in each case subject to certain exemptions, including exemptions permitting foreign banking entities to engage in trading and fund activities that take place solely outside of the U.S.. The final rules contain exclusions and certain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations as well as certain foreign government obligations, trading solely outside the U.S., and also permit ownership interests in certain types of funds to be retained. On 10 December 2013, the U.S. bank regulators issued final regulations implementing the Volcker Rule, and the Federal Reserve also issued an order extending the conformance period for all banking entities until 21 July 2015. On 18 December 2014 the U.S. Federal Reserve announced an additional extension of the conformance period that would give banking entities until 21 July 2016 (subsequently extended to 21 July 2017) to conform investments in and relationships with covered funds and certain foreign funds that may be subject to the Volcker Rule and that were in place prior to 31 December 2013, and additional extensions are possible. Banking entities must bring their activities and investments into compliance with the requirements of the Volcker Rule by the end of the applicable conformance period. The Group has assessed how the final rules implementing the Volcker Rule affect the Group’s business and have adopted the necessary measures to bring its activities into compliance with the rules.

Each of these aspects of the Dodd-Frank Act, as well as the changes in the U.S. banking regulations, may directly and indirectly impact various aspects of the Group’s business. The full spectrum of risks that the Dodd-Frank Act, including the Volcker Rule, pose to the Group is not yet known, however, such risks could be material and the Group could be materially and adversely affected by them.

Competition

In the UK and elsewhere, there is continuing political, competitive and regulatory scrutiny of the banking industry and, in particular, retail banking. Political involvement in the regulatory process, in the behaviour and governance of the UK banking sector and in the major financial institutions in which the UK Government has a direct financial interest is likely to continue. Under the Enterprise Regulatory Reform Act 2013 the Office of Fair Trading ("**OFT**") and the Competition Commission were replaced by the Competition and Markets Authority ("**CMA**") on 1 April 2014. The CMA is now the UK's main competition authority responsible for ensuring that competition and markets work well for consumers. In addition, under the Banking Reform Act, as of 1 April 2015, the FCA has the power to enforce against breaches of the Competition Act 1998 and to refer markets to the CMA for in-depth investigation in the areas of financial services in the UK. As of 1 April 2015, the Payment Systems Regulator also has an objective and powers equivalent to those of the FCA to promote competition in the payments industry.

Following a market study and review, the CMA undertook a market investigation into competition in the personal current account and SME retail banking markets. The CMA published its final report on 9 August 2016, which identified features of the markets for the supply of personal current accounts, business current accounts and SME lending that, in combination, are having an adverse effect on competition. The CMA has decided on a comprehensive package of remedies including, amongst other things, the introduction of requirements to prompt customers to review the services that they receive from their bank at certain trigger points and to promote customer awareness of account switching. The remedial measures will be implemented by orders, undertakings to be given by Bacs and recommendations to the FCA and HM Treasury. In addition, the FCA has recently undertaken, and is currently undertaking, a number of competition related studies and reviews. The resolution of a number of issues, including regulatory reforms, 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 the Group's relations with its customers and potential customers.

Financial crime

There are a number of EU and UK proposals and measures targeted at preventing financial crime (including anti-money laundering ("**AML**") and countering the financing of terrorism ("**CTF**") provisions) which are expected to come into effect in 2017 and 2018.

As part of the EU's revision of its AML / CTF rules, Directive (EU) No 2015 / 849 (the "**Fourth EU Money Laundering Directive**") and Regulation (EU) No 847 / 2015 (the "**EU Wire Transfer Regulation**") will come into effect on 26 June 2017. The Fourth EU Money Laundering Directive replaces existing Directive (EC) No 60 / 2005 and significantly expands the existing AML / CTF regime applicable to financial institutions by, among other things:

- increasing the customer due diligence checks required for particular transactions;
- introducing a requirement to take appropriate steps to identify and assess the risks of money laundering and terrorist financing and to have in place policies, controls and procedures to mitigate and manage those risks effectively;
- having EU Member States hold beneficial ownership details on a central register for entities incorporated within their territory; and
- applying the UK's AML / CTF requirements to the branches and majority-owned subsidiaries of financial institutions that are located in non-EEA countries with less strict regimes.

The UK Government has consulted on its implementation of the Fourth EU Money Laundering Directive into national law and the amendments needed to the Persons with Significant Control regime and draft regulations are expected to be published in 2017 for further consultation before the final rules are issued. However, the EU legislature is currently considering making further amendments to the new directive.

The EU Wire Transfer Regulation replaces the existing Regulation (EC) No 1781 / 2006. This regulation will apply to all transfers of funds in any currency which are sent or received by a payment service provider ("**PSP**") or an intermediary PSP established in the EU, subject to certain exceptions for low-risk and low-value payments. The payer's PSP is required to ensure that any transfer of funds is accompanied by the identification information prescribed in the regulation and must verify the accuracy of this information from a reliable and independent source. Obligations are also imposed on the payee's PSP to implement effective procedures to detect whether the information about the payer or payee in the messaging or payment and settlement system is incomplete and to take a risk-based approach to determining whether to execute, reject or suspend a transfer of funds with missing information.

The UK Policing and Crime Act 2017 contains several measures to strengthen the enforcement of financial sanctions including enhanced criminal penalties and the power to impose monetary penalties for breaches of financial sanctions, deferred prosecution agreements and serious crime prevention orders for such breaches and the power to temporarily implement UN financial sanctions in the absence of EU implementing measures. The Act received royal assent on 31 January 2017.

The UK Immigration Act 2016 requires banks to conduct immigration checks on their current account holders and report any persons unlawfully present in the UK to the Home Office. The Home Office may require the bank to close the accounts of such individuals as soon as reasonably practicable. The regulations implementing these changes are expected to be published in 2017.

Finally, HM Revenue & Customs has published draft legislation introducing a new offence which will be committed by a corporation which fails to prevent the criminal facilitation of tax evasion by its associated persons (which includes its employees, agents and other persons who perform services for or on behalf of it) regardless of whether the tax is owed in the UK or another country. There is a defence where the corporation has put in place reasonable prevention procedures to prevent its associated persons from facilitating tax evasion or where it is unreasonable to expect such procedures. If an offence is committed, unlimited financial penalties or ancillary orders could be imposed. This new offence forms part of the UK Criminal Finances Bill 2016 / 2017 which is currently being considered by the UK Parliament. This bill amends the UK Proceeds of Crime Act 2002 and will, if passed, contain a further range of provisions targeted at improving the UK Government's ability to tackle money laundering and corruption, recover the proceeds of crime and counter terrorist financing and will enable the sharing of information between the private sector and enforcement agencies.

The implementation of the foregoing measures (whether in their current form or as amended) will materially increase the Group's regulatory and compliance burden, particularly if the time frame for implementation is short. The proposed changes will require substantial amendments to our AML / CTF procedures and policies. The changes could adversely impact the Group's business by increasing its operational and compliance costs and reducing the value of its assets and operations. Where the changes have extra-territorial effect, there may be difficulties in ensuring the compliance of entities over which the Group does not have full control or where the UK rules do not align easily with the local requirements. There is always a risk that the measures will not be implemented correctly or that individuals within the business will not be fully compliant with the new procedures. If there are breaches of these measures, the Group could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on its operations, financial condition and prospects.

The structure of the financial regulatory authorities in the UK and the UK regulatory framework that applies to the Group have been reformed and reorganised and the Group is subject to any potential resulting uncertainty and changes to the UK regulatory regime in general

Under the Financial Services Act 2012, the UK Government introduced a range of structural reforms to UK financial regulatory bodies. As a result of those reforms, as of 1 April 2013, the Group's primary micro-prudential supervisor is the PRA, while its conduct supervisor is the FCA. Key changes which took effect in 2014 included the transfer of consumer credit regulation to the FCA from the OFT on 1 April 2014, and the creation of the Payment Systems Regulator as an autonomous subsidiary of the FCA on 1 April 2014, which took effect as an economic regulator from 1 April 2015.

Within the current regulatory framework the Group is subject to each regulator's respective supervisory regimes and approaches, and any policy development, change or new regulation which may be brought in. In turn the UK regulatory framework is subject to amendment or change by the UK Government (as occurred following the 2010 general election, when the FSA was abolished and replaced by the current PRA/FCA structure).

The Financial Services Act 2012 also established the FPC within the BoE responsible for macro-prudential regulation and with a statutory objective to contribute to the achievement by the BoE of its financial stability objective and otherwise supporting the UK Government's economic policy. In addition to monitoring the stability of the UK financial system, the FPC may exercise its statutory powers to give directions or make recommendations to the PRA and/or FCA. While the FPC is not permitted to give directions or make recommendations in relation to a specific regulated institution, any such directions and/or recommendations could impact on the UK banking sector, which includes the Group.

Various recent reforms to the mortgage lending and personal loans market have been proposed which could require significant implementation costs or changes to the Group's business strategy

Mortgage Lending

The final rules in relation to the FCA Mortgage Market Review ("**MMR**") came into force on 26 April 2014. These rules required a number of material changes to the mortgages sales process both in terms of advice provision in nearly all scenarios and significantly enhanced affordability assessment and evidencing. The new rules permit interest-only loans. However, there is a clear requirement for a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan).

The Group has implemented certain changes to implement the MMR requirements. The FCA continues to assess firms' implementation of the rules introduced as a result of the MMR and commenced a review of responsible lending practices in April 2015. The FCA published the results of its responsible lending review in May 2016, and conclusions from that review will inform the scope of the FCA's proposed market study on those aspects of the mortgage market that are not working to the benefit of consumers. In December 2016, the FCA published terms of reference for a market study into competition in the mortgages sector, which will focus on consumers' ability to make effective decisions and whether commercial arrangements between lenders, brokers and other players lead to conflicts of interest or misaligned incentives to the detriment of consumers. The FCA aims to publish its interim report setting out its preliminary conclusions and any proposed solutions to address any concerns identified in summer 2017, with the final report due in early 2018. There can be no assurance that the Group will not be required to make changes to its mortgage lending business in the future, whether as a result of the MMR or other mortgage lending reforms, and that such changes would not adversely affect the Group.

In March 2011, the Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers (the "**Mortgage Credit Directive**"). The Mortgage Credit Directive was published in the Official Journal on 28 February 2014 and had to be implemented by Member States by 21 March 2016. The Mortgage Credit Directive requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment. HM Treasury and the FCA each published consultations in September 2014 on the necessary legislation and rules required to implement the Mortgage Credit Directive in the UK. HM Treasury published a consultation response and final draft legislation in January 2015. The UK has decided to implement the Mortgage Credit Directive into UK law by way of the Mortgage Credit Directive Order (the "**MCD Order**") which was published on 26 March 2015. The MCD Order came into effect in the UK in phases, with all provisions becoming effective on or before the 21 March 2016. The FCA published its final rules implementing the Mortgage Credit Directive on 27 March 2015. These rules also came into effect on 21 March 2016. The Group has been required to make changes to its mortgage lending business to comply with the reforms and such reforms could therefore have an adverse effect on the Group's operating results, financial condition and prospects.

Consumer credit

On 1 April 2014, consumer credit regulation was transferred from the OFT to the FCA in accordance with the Financial Services Act 2012. Firms that held an OFT licence and had registered with the FCA by 31 March 2014, including Santander UK plc, were granted an interim permission under the new regime and had to apply to the FCA for full authorisation during an application period notified by the FCA. Under the new regime: (i) carrying on certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and (ii) the FCA has the power to make rules providing that contracts made in contravention of its rules on cost and duration of credit agreements, or in contravention of its product intervention rules, are unenforceable. Santander UK plc is fully authorised to carry out consumer credit-related regulated activities, however, if the FCA were to impose conditions on that authorisation and/or make changes to the FCA rules applicable to authorised firms with consumer credit permissions, this could have an adverse effect on the Group's operating results, financial condition and prospects.

The Group is exposed to risk of loss from legal and regulatory proceedings

The Group faces various issues that may give rise to risk of loss from legal and regulatory proceedings. These issues, including inappropriately dealing with potential conflicts of interest, and legal and regulatory requirements, could result in claims against the Group or subject the Group to regulatory enforcement actions, fines and/or penalties. The current regulatory environment, with its increased supervisory focus and associated enforcement activity, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs. These include the risk that:

- the BoE, the PRA and the FCA, HM Treasury, HM Revenue & Customs ("**HMRC**"), the CMA, the Information Commissioner's Office, the Financial Ombudsman Service ("**FOS**"), the Payment Systems Regulator or the courts, may determine that certain aspects of the Group's business have not been or are not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the FOS's opinion;

- the alleged mis-selling of financial products, such as Payment Protection Insurance ("**PPI**"), including as a result of having sales practices and/or rewards structures that are deemed to have been inappropriate, results in enforcement action (including fines) or requires the Group to amend sales processes, withdraw products or provide restitution to affected customers, all of which may require additional provisions to be recorded in the financial statements of the Group and could adversely impact future revenues from affected products;

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

- the Group may be liable for damages to third parties harmed by the conduct of its business. For example, there are efforts by governments across Europe to promote private enforcement as a means of obtaining redress for harm suffered as a result of competition law breaches. Consequently, since 1 October 2015 under the Consumer Rights Act class actions may be used to allow the claims of a whole class of claimants into a single action in both follow-on and standalone competition cases.

The Group is from time to time subject to certain claims and party to certain legal proceedings in the normal course of the Group's business, including in connection with the Group's lending activities, relationships with the Group's employees and other commercial or tax matters. These can be brought against the Group under UK regulatory processes or in the UK courts, or under regulatory processes in other jurisdictions, such as the EU and the U.S., where some Group entities operate. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, the Group cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines and/or penalties related to each pending matter may be and these pending matters are not disclosed by name because they are under assessment. The Group believes that it has made adequate provisions related to these various claims and legal proceedings. These provisions are reviewed periodically. However, in light of the uncertainties involved in such claims and proceedings, there can be no assurance that the ultimate resolution of these matters will not exceed the provisions currently accrued by the Group. As a result, the outcome of a particular matter may be material to the Group's operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the Group's level of income for that period.

The FCA carries out regular and frequent reviews of the conduct of business by financial institutions including banks. An adverse finding by a regulator could result in the need for extensive changes in systems and controls, business policies, and practices coupled with suspension of sales, withdrawal of services, customer redress, fines and reputational damage.

Failure to manage these risks adequately could have a material adverse effect on the Group's reputation, operating results, financial condition and prospects.

Potential intervention by the FCA, the PRA, the CMA or an overseas regulator may occur, particularly in response to customer complaints

The PRA and the FCA now have a more outcome-focused regulatory approach than their predecessor the FSA. This involves more proactive intervention, investigation and enforcement, and more punitive penalties for infringement. As a result, the Group and other PRA and/or FCA-authorised firms face increased supervisory intrusion and scrutiny (resulting in increasing costs including supervision fees), and in the event of a breach of relevant law or regulation. The Group is likely to face more stringent penalties.

The developing legal and regulatory regime in which the Group operates requires the Group to be compliant across all aspects of the Group's business, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to be compliant with relevant law or regulation, there is a risk of an adverse impact on the Group's business from more proactive regulatory intervention (including by any overseas regulator which establishes jurisdiction), investigation and enforcement activity leading to sanctions, fines or other action imposed by or agreed with the regulatory authorities. Customers of financial services institutions, including the Group's customers, may seek redress if they consider that they have suffered loss for example as a result of the mis-selling of a particular product, or through incorrect application of the terms and conditions of a particular product or in connection with a competition law infringement.

In particular, the FCA has operational objectives to protect consumers and to promote competition, and it is taking a more interventionist approach in its increasing scrutiny of product terms and conditions and monitoring compliance with competition law. FSMA (as amended by the Financial Services Act 2012) gives the FCA the power to make temporary product intervention rules either to improve a firm's systems and controls in relation to product design, product management and implementation, or to address problems identified with products which may potentially cause significant detriment to consumers because of certain product features or firms' flawed governance and distribution strategies. Such rules may prevent firms from entering into product agreements with consumers until such problems have been rectified.

Since April 2015 the FCA (and the Payment Systems Regulator) obtained concurrent competition law enforcement powers. This is in addition to the CMA and European Commission which continue to have jurisdiction to enforce competition law infringement in the UK. As a result, the UK financial services sector now operates in an environment of heightened competition law scrutiny.

Under the Financial Services Act 2010, the FCA also has the power to impose its own customer redress scheme on authorised firms, including the Group, if it considers that consumers have suffered loss or damage as a consequence of a regulatory failing, including mis-selling.

In recent years there have been several industry-wide issues in which the FSA (now the FCA) has intervened directly. One such issue is the mis-selling of PPI where, following an unsuccessful legal challenge by the British Bankers' Association ("**BBA**") in 2011 of new FSA rules which altered the basis on which regulated firms must consider and deal with complaints in relation to the sale of PPI, Santander UK plc, along with other institutions, revised its provision for PPI complaint liabilities in 2011 to reflect the change in rules and the consequential increase in claims levels. No additional provisions were made for PPI in 2012 or in 2013. In 2014, a total charge of £140m, including related costs, was made for further conduct remediation. Of this, £95m related to PPI.

In November 2015, the FCA issued a consultation paper (the "**Consultation Paper**") outlining its proposed approach to PPI in light of the 2014 decision of the Supreme Court in Plevin v Paragon Personal Finance Ltd ("**Plevin**") and its proposal to set a two year deadline for PPI claims. In Plevin, the Supreme Court ruled that a failure to disclose a large commission payment on a single premium PPI policy sold in connection with a secured personal loan made the relationship between the lender and the borrower unfair under section 140A of the Consumer Credit Act 1974. Regarding the two year deadline for PPI claims, the FCA outlined details of a £42.2m media campaign, funded by the 18 firms (including firms in the Group) that have reported the most PPI complaints. The FOS is also currently considering its position with respect to the impact of Plevin on PPI complaints. When assessing the adequacy of the Group's provision, the Group has applied its interpretation of the proposed rules and guidance in the Consultation Paper to its current assumptions. This application resulted in an additional £450m provision charge in December 2015, which represented the Group's best estimate of the remaining redress and costs at that time, notwithstanding the ongoing nature of the consultation. New legislation was introduced in 2015 which has the effect of restricting the corporation tax deductibility for a large proportion of this cost. This new legislation is further detailed in the risk factor entitled "*Changes in taxes and other assessments may adversely affect the Group*". The FCA's consultation period in respect of the Consultation Paper closed in February 2016. In August 2016, the FCA issued feedback on the Consultation Paper and commenced a further consultation on amendments to the proposed rules and guidance set out in the Consultation Paper, addressing (amongst other things) the inclusion of profit share in the FCA's proposed approach to the assessment of fairness and redress and the extension of the deadline for making PPI-related complaints to the end of August 2019. On 9 December 2016, the FCA announced that it was carefully considering the issues raised by the consultation and would make a further announcement in the first quarter of 2017. The PPI provision amounted to £457m at 31 December 2016. The Group made an additional £144m provision charge in the year, which included our best estimate of Plevin related claim costs and a £30m charge for a specific portfolio under a past business review. On 2 March 2017 the FCA published PS17/3 (Payment protection insurance complaints: feedback on CP16/20 and final rules and guidance). The Group is currently analysing the impact of these changes and any additional provision requirements will be made before 31 March 2017.

Given the above, the ultimate financial impact on the Group of the claims arising from PPI complaints is still uncertain and will depend on a number of factors, including the impact of the Supreme Court's decision in Plevin, the nature and content of the FCA's final rules and/or guidance arising from the Consultation Paper changes to FOS' approach to handling customer complaints (if any), the rate at which new complaints arise, the length of any complaints, the content and quality of the complaints (including the availability of supporting evidence) and the average uphold rates and redress costs. The Group can make no assurance that expenses associated with PPI complaints will not exceed the provision made relating to these claims. More generally, the Group can make no assurance that estimates for potential liabilities, based on the key assumptions it used, are correct, and the reserves taken as a result may prove inadequate. If additional expenses that exceed provisions for PPI liabilities or other provisions were to be incurred, these expenses could have a material adverse effect on the Group's operating results, financial condition and prospects.

For further information about the provisions for PPI complaint liabilities and other conduct remediation, see Note 33 to the Consolidated Financial Statements in the Annual Report for the year ended 31 December 2016 incorporated by reference herein. The above may be relevant to any future industry-wide mis-selling or other infringement that could affect the Group's businesses. Any such issues may lead from time to time to: (i) significant costs or liabilities; and (ii) changes in the practices of such businesses which benefit customers at a cost to shareholders.

Decisions taken by the FOS could, if applied to a wider class or grouping of customers, have a material adverse effect on the Group's operating results, financial condition and prospects.

The Financial Services and Markets Act 2000 (Designated Consumer Bodies) Order 2013 (the "**Designated Consumer Bodies Order**") was made on 16 December 2013 and came into force on 1 January 2014. The Designated Consumer Bodies 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. A 'super-complaint' is a complaint made by any of these designated consumer bodies 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" were to be made against a Group entity by a designated consumer body under the Designated Consumer Bodies Order, any response published or action taken by the FCA could have a material adverse effect on the Group's operating results, financial condition and prospects.

Given the (i) requirement for compliance with an increasing volume of relevant law and regulation; (ii) more proactive regulatory intervention and enforcement and more punitive sanctions and penalties for infringement; (iii) inherent unpredictability of litigation; and (iv) evolution of the jurisdiction of FOS and related impacts, it is possible that related costs or liabilities could have a material adverse effect on the Group's operating results, financial condition and prospects.

The Banking Act may adversely affect the Group's business

The Banking Act came into force on 21 February 2009. The special resolution regime set out in the Banking Act provides HM Treasury, the BoE, the PRA and the FCA (and their successor bodies) with a variety of powers for dealing with UK deposit taking institutions (and, in certain circumstances, their holding companies) that are failing or likely to fail, including: (i) to take a bank or bank holding company into temporary public ownership; (ii) to transfer all or part of the business of a bank to a private sector purchaser; or (iii) to transfer all or part of the business of a bank to a "bridge bank". The special resolution regime also comprises a separate insolvency procedure and administration procedure each of which is of specific application to banks. These insolvency and administration measures may be invoked prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made.

In addition, pursuant to amendments made to the Banking Act, which came into force on 1 August 2014, provision has been made for various tools to be used in respect of a wider range of UK entities, including investment firms and certain banking group companies, provided that certain conditions are met. Secondary legislation specifies that the Banking Act powers can be applied to investment firms that are required to hold initial capital of €730,000 or more and to certain UK incorporated non-bank companies in the Group.

If an instrument or order were made under the Banking Act in respect of the Issuer or another Group entity, such instrument or order (as the case may be) may, among other things: (i) result in a compulsory transfer of shares or other securities or property of the Issuer or such other entity; (ii) impact on the rights of the holders of shares or other securities in the Issuer or such other entity or result in the nullification or modification of the terms and conditions of such shares or securities; or (iii) result in the de-listing of the shares and/or other securities of the Issuer or such other entity in the Group. In addition, such an order may affect matters in respect of the Issuer or such other entity and/or other aspects of the shares or other securities of the Issuer or such other entity in the Group, which may negatively affect the ability of the Issuer or such other entity to meet its obligations in respect of such shares or securities.

Further, amendments to the Insolvency Act 1986 and secondary legislation have introduced changes to the treatment and ranking of certain debts with the result that certain eligible deposits will rank in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency. This may negatively affect the ability of the Issuer or such other entity to meet its obligations in respect of its unsecured creditors in an insolvency scenario.

Bail-in and write down powers under the Banking Act and the BRRD may adversely affect the Group's business and the value of securities it may issue

The Banking Reform Act as of 31 December 2014 amended the Banking Act to introduce a UK 'bail-in power'. On 6 May 2014, the Council adopted the BRRD, which contains a similar bail-in power and requires Member States to provide resolution authorities with the power to write down the claims of unsecured creditors of a failing institution and to convert unsecured claims to equity (subject to certain parameters). The UK Government decided to implement the BRRD bail-in power from 1 January 2015. The new PRA and FCA rules and supervisory statements took effect from 19 January 2015, with the exception of the rules that require a contractual clause recognising bail-in powers in foreign law liabilities. These rules were phased in, with the first phase, which applies to debt instruments, having commenced on 19 February 2015. The second phase, which applies to all other relevant liabilities commenced on 1 January 2016.

The UK bail-in power is an additional power available to the UK resolution authorities under the special resolution regime provided for in the Banking Act to enable them to recapitalise a failed institution by allocating losses to such institution's shareholders and unsecured creditors subject to the rights of such shareholders and unsecured creditors to be compensated under a bail-in compensation order, which is based on the principle that such creditors should receive no less favourable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write down (in whole or in part) certain liabilities or to modify the terms of certain contracts for the purposes of reducing or deferring the liabilities of a relevant institution under resolution and the power to convert certain liabilities into shares (or other instruments of ownership) of the relevant institution. The conditions for use of the UK bail-in power are generally that (i) the regulator determines the relevant institution is failing or likely to fail; (ii) it is not reasonably likely that any other action can be taken to avoid such a relevant institution's failure; and (iii) the relevant UK resolution authority determines that it is in the public interest to exercise the bail-in power. Certain liabilities are excluded from the scope of the bail-in powers, including liabilities to the extent that they are secured. The Securities would be subject to such powers.

According to the Banking Act, as well as similar principles in the BRRD, the relevant UK resolution authority should have regard to the insolvency treatment principles when exercising the UK bail-in power. The insolvency treatment principles are that (i) the exercise of the UK bail-in power should be consistent with treating all liabilities of the bank in accordance with the priority that they would enjoy on a liquidation and (ii) any creditors who would have equal priority on a liquidation should bear losses on an equal footing with each other. HM Treasury may, by order, specify further matters or principles to which the relevant UK resolution authority must have regard when exercising the UK bail-in power. These principles may be specified in addition to, or instead of the insolvency treatment principles. If the relevant UK resolution authority departs from the insolvency treatment principles when exercising the UK bail-in power, it must report to the Chancellor of the Exchequer stating the reasons for its departure.

In an insolvency of the Issuer, claims in respect of the Securities would rank behind all other claims in such insolvency other than claims in respect of share capital of the Issuer. Accordingly, in the event of the bail-in powers being used in respect of the Issuer, the Securities would be amongst the first of the Issuer's obligations to bear losses through write-down or conversion to equity.

The bail-in power under the Banking Act and the BRRD may potentially be exercised in respect of any unsecured debt securities issued by a financial institution under resolution or by a relevant member of the Group, regardless of when they were issued. Accordingly, the bail-in power under the Banking Act and the BRRD could be exercised in respect of the Group's debt securities. The Group expects that public financial support would only be used as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools including the bail-in tool, and the occurrence of circumstances in which bail-in powers would need to be exercised in respect of the Group would likely have a negative impact on the Group's business.

The BRRD also contains a mandatory write down power which requires Member States to grant powers to resolution authorities to recapitalise institutions and/or their EEA parent holding companies that are in severe financial difficulty or at the point of non-viability by permanently writing down Tier 1 and Tier 2 capital instruments issued by such institutions and/or their EEA parent holding companies, or converting those capital instruments into shares (or other instruments of ownership). The mandatory write down provision has been implemented in the UK through the Banking Act. Before taking any form of resolution action or applying any resolution power set out in the BRRD, the UK resolution authorities have the power (and are obliged when specified conditions are determined to have been met) to write down, or convert Tier 1 and Tier 2 capital instruments issued by the relevant institution into common equity tier 1 capital instruments before, or simultaneously with, the entry into resolution of the relevant entity. These measures could be applied to certain of the Group's debt securities, and would apply to the Securities. The occurrence of circumstances in which write-down powers would need to be exercised in respect of the Issuer would be likely to have a negative impact on the Group's business.

In contrast to the creditor protections afforded in the event of the bail-in powers being exercised, holders of capital instruments (such as the Securities) will not be entitled to the "no creditor worse off" protections under the Banking Act in the event that their capital instruments are written down or converted to equity under the mandatory write-down tool (unless the mandatory write-down tool were to be used alongside a bail-in).

Furthermore, in circumstances where capital instruments (such as the Securities) are converted into equity securities by application of the mandatory write-down tool, those equity securities may be subjected to the bail-in powers in resolution, resulting in their cancellation, significant dilution or transfer away from the investors therein.

In addition, the BRRD provides for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances. As a result of changes to the PRA Rulebook made to implement the BRRD, the Issuer is now required to identify such "critical functions" as part of its resolution and recovery planning. If used in respect of the Group, these ex ante powers could have a negative impact on the Group's business.

The Group is responsible for contributing to compensation schemes in the UK in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers

In the UK, the Financial Services Compensation Scheme ("**FSCS**") was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a PRA-authorised or FCA-authorised firm is unable, or likely to be unable, to pay claims against it (for instance, an authorised bank is unable to pay claims by depositors). The FSCS is funded by levies on firms authorised by the PRA or the FCA (i.e. participant firms), including Santander UK plc and other members of the Group.

Following the default of a number of authorised financial services firms since 2008, the FSCS borrowed funds totalling approximately £18bn from HM Treasury to meet the compensation costs for customers of those firms. The substantial majority of the principal should be repaid from funds the FSCS levies from asset sales, surplus cash flow or other recoveries in relation to assets of the firms that defaulted. However, the FSCS estimates that the assets of these failed institutions are insufficient and, to the extent that there remains a shortfall, the FSCS is recovering this shortfall by levying firms authorised by the PRA or the FCA in instalments. The first instalment was in scheme year 2013/14, and the Group made a first capital contribution in August 2013. The second instalment was in scheme year 2014/15, and the Group made a second capital contribution in August 2014. For the year ended 31 December 2016, the Group charged £34m to the income statement in respect of the costs of the FSCS.

The FSCS also has the power to impose “management expenses in respect of relevant schemes levy” (“**MERS Levy**”) in relation to its potential role as agent of other compensation schemes. The FSCS may impose a MERS Levy on participant firms to meet expenses it incurs in its role as agent.

In the event that the FSCS raises further funds from participant firms or increases the levies to be paid by such firms or the frequency at which the levies are to be paid, the associated cost to the Group may have a material adverse effect on the Group’s operating results, financial condition and prospects. Since 2008, measures taken to protect the depositors of deposit-taking institutions involving the FSCS, such as the borrowing from HM Treasury mentioned above, have resulted in a significant increase in the levies made by the FSCS on the industry and such levies may continue to go up if similar measures are required to protect depositors of other institutions. In addition, following amendments to the preferred credit status of depositors that came into force on 31 December 2014, the FSCS stands in the place of depositors of a failing institution and has preferred status over an institution’s other creditors.

Regulatory reform initiatives in the UK and internationally may result in further changes to the FSCS, which could result in additional costs and risks for the Group. For instance, in July 2013, the Council announced its intention that revisions to the EU Deposit Guarantee Scheme Directive should be adopted by the end of 2013. The recast EU Deposit Guarantee Scheme Directive (the “**DGSD**”), which was published in the Official Journal on 12 June 2014 and entered into force on 2 July 2014, introduced a tighter definition of deposits and includes a requirement that the Deposit Guarantee Scheme pay customers within a week and a requirement that banks must be able to provide information on the aggregated deposits of a depositor. These revisions are likely to affect the methodology employed by the FSCS for determining levies on institutions. In addition, the DGSD also required Member States to ensure that by 3 July 2014 the available financial means of deposit guarantee schemes reach a minimum target level of 0.8 per cent. of the covered deposits of their members and requires deposit guarantee schemes to be ex-ante funded. Between April and July 2015, the PRA published its final rules implementing the DGSD, most of which took effect on 3 July 2015. The final rules enable the FSCS to use the existing bank levy to meet the ex-ante funding requirements in the DGSD. Changes as a result of this may affect the profitability of members of the Group required to contribute to the FSCS.

FSCS levies are collected by the FCA as part of a single payment by firms covering the FCA, the PRA, the FOS and the FSCS fees. It is possible that future policy of the FSCS and future levies on the firms authorised by the FCA or PRA may differ from those at present and that this could lead to a period of some uncertainty for Group entities. In addition, it is possible that other jurisdictions where the Group operates could introduce or amend their similar compensation, contributory or reimbursement schemes. As a result of any such developments, the Group may incur additional costs and liabilities which may adversely affect the Group’s operating results, financial condition and prospects.

The Group may fail to detect or prevent money laundering and other financial crime activities due to not correctly identifying the Group’s financial crime risks and failing to

implement effective controls to mitigate those risks. This could expose the Group to heavy fines, additional regulatory scrutiny, increased liability and reputational risk

The Group may fail to detect or prevent money laundering and other financial crime activities due to not correctly identifying the Group's financial crime risks and failing to implement effective controls to mitigate those risks. This could expose the Group to heavy fines, additional regulatory scrutiny, increased liability and reputational risk. The Group is obligated to comply with applicable AML, anti-terrorism, sanctions and other laws and regulations in the jurisdictions in which the Group operates. These laws and regulations require the Group, among other things, to conduct full customer due diligence in respect of sanctions and politically-exposed person screening, keep the Group's customer, account and transaction information up to date and implement effective financial crime policies and procedures detailing what is required from those responsible. The Group's requirements also include financial crime training for the Group's staff, reporting suspicious transactions and activity to appropriate law enforcement following full investigation by the Suspicious Activity Reporting Unit.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML sanctions, laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

The Group has developed policies and procedures aimed at detecting and preventing the use of the Group's banking network for money laundering and financial crime related activities. These require the implementation and embedding within the business of effective controls and monitoring which requires on-going changes to systems and operational activities. Financial crime is continually evolving, and the expectation of regulators is increasing. This requires similarly proactive and adaptable responses from the Group so that the Group is able to deter threats and criminality effectively. Even known threats can never be fully eliminated, and there will be instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, the Group relies heavily on the Group's staff to assist it by spotting such activities and reporting them, and the Group's staff have varying degrees of experience in recognising criminal tactics and understanding the level of sophistication of criminal organisations. Where the Group outsources any of its customer due diligence, customer screening or anti financial crime operations, the Group remains responsible and accountable for full compliance and any breaches. If the Group is unable to apply the necessary scrutiny and oversight there remains a risk of regulatory breach.

If the Group is unable to fully comply with applicable laws, regulations and expectations, the Group's regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on the Group, including requiring a complete review of the Group's business systems, day to day supervision by external consultants and ultimately the revocation of the Group's banking licence.

The reputational damage to the Group's business and global brand would be severe if the Group was found to have breached AML or sanctions requirements. The Group's reputation could also suffer if the Group is unable to protect its customers or its business from being used by criminals for illegal or improper purposes.

In addition, while the Group reviews its relevant counterparties' internal policies and procedures with respect to such matters, the Group, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate AML procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the Group's (and its relevant counterparties') services as a conduit for money laundering (including illegal cash operations) without the Group's (or its relevant counterparties') knowledge. If the Group is associated with, or even accused of being associated with, or become a party to, money laundering, then its reputation could suffer and/or the Group could become subject to fines, sanctions and/or legal enforcement (including being added to "black lists" that would prohibit certain parties from engaging in transactions with the Group), any one of which could have a material adverse effect on its operating results, financial condition and prospects. Any such risks could have a material adverse effect on the Group's operating results, financial condition and prospects.

Changes in taxes and other assessments may adversely affect the Group

The tax and other assessment regimes to which the Group's customers and the Group is subject are regularly reformed, or subject to proposed reforms. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which may be earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect upon the Group's business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in the Group's non-performing credit portfolio.

The following paragraphs discuss four major reforms (Bank Levy, Restriction of Tax Deductions for Compensation Payments, Corporation Tax Surcharge and possible future changes in the taxation of banking groups in the EU) which could have a material adverse effect on the Group's operating results, financial condition and prospects, and the competitive position of UK banking groups, including the Group.

Bank Levy

HM Treasury introduced an annual UK bank levy (the "**Bank Levy**") via legislation in the Finance Act 2011. The Bank Levy is imposed on (amongst other entities) UK banking groups and subsidiaries, and therefore applies to the Group. The amount of the Bank Levy is based on a bank's total liabilities, excluding (amongst other things) Tier 1 capital, insured retail deposits and repos secured on sovereign debt. With effect from 1 April 2015, the Finance Act 2015 increased the rate (for short-term liabilities) to 0.21 per cent. (a reduced rate is applied to long-term equity and liabilities). Subsequently the Finance (No.2) Act 2015 ("**Finance (No.2) Act**"), which was enacted on 18 November 2015, reduced that rate from 0.21 per cent. to 0.18 per cent. from 1 January 2016 with subsequent annual reductions to 0.1 per cent. from 1 January 2021. The rate from 1 January 2017 is therefore 0.17 per cent.

Restriction of Tax Deductions for Compensation Payments

The Finance (No.2) Act implemented measures that have led to, for expenditure arising on or after 8 July 2015 by banking companies, (i) certain compensation payments no longer being deductible for corporation tax purposes and (ii) a deemed taxable receipt equivalent to 10 per cent. of the amount of those compensation payments.

Corporation Tax Surcharge

With effect from 1 January 2016, banking groups are subject to a surcharge at a rate of 8 per cent. on their taxable profits for corporation tax purposes (with certain reliefs added back and subject to an annual allowance).

European Taxation

As of 1 August 2012, pursuant to the French amending finance law for 2012, a financial transaction tax in France was introduced (the "**French Financial Transaction Tax**"). The French Financial Transaction Tax applies to certain transactions, referenced to, or in relation with, French listed shares where the relevant issuer's stock market capitalisation exceeds one billion euro. The French Financial Transaction Tax rate is 0.2 per cent. of the sale price of the transaction.

Similarly, on 24 December 2012, pursuant to paragraphs 491 to 500 of Article 1 of the Italian Law 288, a financial transaction tax in Italy was introduced (the "**Italian Financial Transaction Tax**"). The Italian Financial Transaction Tax commenced on 1 March 2013 for transactions in Italian equity instruments and from 1 July 2013 for Italian equity derivatives. The Italian Financial Transaction Tax rate is between 0.2 per cent. and 0.1 per cent. of the sale price of the transaction.

On 14 February 2013, the European Commission published a proposal (the "**Commission Proposal**") for a Directive for a common system of financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**"). Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally it would apply to certain dealings in securities where at least one party to the transaction is a financial institution and at least one party is established in a Participating Member State. A financial institution may be, or may be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a Participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a Participating Member State. Whilst the UK is not a Participating Member State, the Commission's Proposal is broad and as such may impact transactions completed by financial institutions operating in non-Participating Member States.

However, the Commission's Proposal remains subject to negotiation between the Participating Member States. The Commission's Proposal may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. It is reported that a final decision will be delayed to mid-2017 and the Group is monitoring developments and any likely impact on the Group. Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

Changes in the Group's pension liabilities and obligations could have a materially adverse effect on the Group

Santander UK plc provides retirement benefits for many of the Group's former and current employees in the UK through a number of defined benefit pension schemes established under trust. Santander UK plc is the principal employer under these schemes, but it has only limited control over the rate at which it pays into such schemes. Under the UK statutory funding requirements employers are usually required to contribute to the schemes at the rate they agree with the scheme trustees, although if they cannot agree, the rate can be set by the Pensions Regulator. The scheme trustees may, in the course of discussions about future valuations, seek higher employer contributions. The scheme trustees' power in relation to the payment of pension contributions depends on the terms of the trust deed and rules governing the pension schemes.

The 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 schemes where that employer is a service company, or is otherwise "insufficiently resourced" (as defined for the purposes of the relevant legislation). As some of the employers within the Group are service companies, if they become insufficiently resourced and no suitable mitigating action is undertaken, other companies within the Group which are connected with or an associate of those employers are at risk of a financial support direction in respect of those employers' liabilities to the defined benefit pension schemes in circumstances where the Pensions Regulator properly considers it reasonable to issue one. 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 Pensions Regulator can also issue contribution notices if it is of the opinion that an employer has taken actions, or failed to take actions, deliberately designed to avoid meeting its pension promises or which are materially detrimental to the scheme's ability to meet its pension promises. A contribution notice can be moved to any company that is connected with or an associate of such employer in circumstances where the Regulator considers it reasonable to issue. The risk of a contribution notice being imposed may inhibit the Group's freedom to restructure or to undertake certain corporate activities.

In a judgment handed down on 18 December 2013, the UK High Court has held that, where multiple group companies are potential targets for the Pensions Regulator's power to issue contribution notices, the aggregate total of the contributions required by those notices is not limited to the amount required to fully fund the deficit in the relevant pension scheme under section 75 of the Pensions Act 1995 ("**Section 75**"). Although such a limit still applies in relation to a single contribution notice, this judgment means that, where there is more than one target for the Pensions Regulator's powers, each of the contribution notices it could issue to those targets can be for the full amount of the Section 75 funding deficit and, further, the scheme may, under such multiple contribution notices, recover more than the actual or notional employer debt, potentially creating a surplus for the scheme. The UK High Court's decision reopens the issue of schemes having a superior priority position over other creditors and further legal developments are expected as a result of the December 2013 judgment. However, in the case to which this relates a settlement was reached which meant that only the full Section 75 debt was paid into the scheme on the proviso the appeal of the judgment was withdrawn.

Should the value of assets to liabilities in respect of the defined benefit schemes operated by Santander UK plc record a deficit, due to a reduction in the value of the pension fund assets (depending on the performance of financial markets) and/or an increase in the pension fund liabilities due to changes in legislation mortality assumptions, discount rate assumptions, inflation, the expected rate of return on scheme assets, or other factors, or there is a change in the actual or perceived strength of the employer's covenant, this could result in Santander UK plc having to make increased contributions to reduce or satisfy the deficits which would divert resources from use in other areas of its business and reduce its capital resources. While the Group can control a number of the above factors, there are some over which it has no or limited control. Although the trustees of the defined benefit pension schemes are obliged to consult with Santander UK plc before changing the pension schemes' investment strategy, the trustees have the final say and ultimate responsibility for investment strategy rests with them. The Group's principal defined pension scheme is the Santander (UK) Group Pension Scheme and its corporate trustee is Santander (UK) Group Pension Scheme Trustee Limited (the "**Pension Scheme Trustee**"), a wholly-owned subsidiary of Santander UK plc. As at 31 December 2016, the Pension Scheme Trustee had 13 directors, comprising six Santander UK plc appointed directors and seven member-elected directors. Investment decisions are delegated by the Pension Scheme Trustee to a common investment fund, managed by Santander (CF) Trustee Limited, a private limited company owned by the Santander (CF) Trustee directors, with up to four appointed by Santander UK plc and up to three by the Pension Scheme Trustee. The Pension Scheme Trustee directors' principal duty, within the investment powers delegated to them, is to act in the best interest of the members of the Group Pension Scheme and not that of Santander UK plc. Any increase in the Group's pension liabilities and obligations could have a material adverse effect on the Group's operating results, financial condition and prospects.

The ongoing changes in the UK supervision and regulatory regime and particularly the implementation of the ICB's recommendations may require Santander UK plc to make changes to its structure and business which could have an impact on its pension schemes or liabilities. For a discussion of the ICB's recommendations, see the risk factor entitled "*The Group is subject to substantial regulation and governmental oversight which could adversely affect the Group's business and operations"*.

Damage to the Group's reputation could cause harm to its business prospects

Maintaining a positive reputation is critical to the Group attracting and maintaining customers, investors and employees and conducting business transactions with counterparties. Damage to the reputation of the Group or Banco Santander S.A. (as the majority shareholder in the Group), the reputation of affiliates operating under the "Santander" brand or any of the Group's other brands could therefore cause significant harm to the Group's business and prospects. Harm to the Group's reputation can arise directly or indirectly from numerous sources, including, among others, employee misconduct, litigation, failure to deliver minimum standards of service and quality, compliance failures, breach of legal or regulatory requirements, unethical behaviour (including adopting inappropriate sales and trading practices), and the activities of customers and counterparties. Further, negative publicity regarding the Group, whether or not true, may result in harm to the Group's operating results, financial condition and prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect the Group's reputation. For example, the role played by financial services firms in the financial crisis has caused public perception of the Group and others in the financial services industry to decline.

The Group could suffer significant reputational harm if the Group fails to identify and manage potential conflicts of interest properly. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of customers to deal with the Group, or give rise to litigation or enforcement actions against the Group. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to the Group.

The Group’s financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of the Group’s operations and financial condition

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group’s results and financial condition, based upon materiality and significant judgements and estimates, include impairment of loans and advances, valuation of financial instruments, provision for conduct remediation and pensions.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of the Group’s operations and financial condition could be materially misstated if the estimates and assumptions used prove to be inaccurate.

If the judgement, estimates and assumptions the Group uses in preparing the Group’s consolidated financial statements are subsequently found to be incorrect, there could be a material effect on the Group’s results of operations and a corresponding effect on the Group’s funding requirements and capital ratios.

Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of fraud

Disclosure controls and procedures over financial reporting are designed to provide reasonable assurance that information required to be disclosed by the Group entities, such as Santander UK plc and Abbey National Treasury Services plc, in reports filed or submitted under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarised and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. The Group adopted the Committee of Sponsoring Organisations of the Treadway Commission internal control – integrated framework with effect from 15 December 2014, replacing the previous framework. The revised framework is designed to recognise the many changes in business and operating environments since the issuance of the original framework and is intended to broaden and enhance the application of controls over financial reporting.

There are however inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Consequently, the Group’s businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective. As a result of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

Changes in accounting standards could impact reported earnings

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of the Group's consolidated financial statements. These changes can materially impact how the Group records and reports the Group's financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

The Group relies on third parties for important infrastructure support, products and services

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 them not providing the Group their services for any reason, or performing their services poorly, could adversely affect the Group's ability to deliver products and services to customers and otherwise conduct business. Replacing these third party vendors could also entail significant delays and expense.

The Group engages in transactions with the Group's subsidiaries or affiliates that others may not consider to be on an arm's-length basis

The Group and the Group's subsidiaries and affiliates have entered into a number of services agreements pursuant to which the Group renders services, such as administrative, accounting, finance, treasury, legal services and others. The Group relies upon certain outsourced services (including information technology support, maintenance and consultancy services) provided by certain other members of the Banco Santander group.

English law applicable to public companies and financial groups and institutions, as well as the articles of association of entities in the Group, provide for several procedures designed to ensure that the transactions entered into, with or among the Group's financial subsidiaries, do not deviate from prevailing market conditions for those types of transactions, including the requirement that the Group's board of directors approve such transactions. The Group is likely to continue to engage in transactions with the Group's subsidiaries or affiliates (including the Group's controlling shareholder). Future conflicts of interest between the Group and any of the Group's subsidiaries or affiliates, or among the Group's subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in the Group's favour.

Different disclosure and accounting principles between the UK and the U.S. may provide different or less information about the Issuer than expected

There may be less publicly available information about the Issuer than is regularly published about companies in the U.S. Issuers of securities in the UK are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in countries with a relatively more developed capital market, including the U.S. While the Issuer's subsidiaries Santander UK plc and Abbey National Treasury Services plc are subject to the periodic reporting requirements of the Exchange Act, the Group is not subject to the same disclosure requirements in the U.S. as a domestic U.S. registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports, or the proxy rules applicable to domestic U.S. registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules under Section 16 of the Exchange Act. Accordingly, the information about the Issuer available will not be the same as the information available to holders of securities of a U.S. company and may be reported in a manner that is not familiar.

Risks concerning enforcement of judgments made in the U.S.

The Issuer is a public limited company registered in England and Wales. With the exception of one director, all of the Issuer's directors live outside the U.S. As a result, it may not be possible to serve process on such persons in the U.S. or to enforce judgments obtained in U.S. courts against them or the Issuer based on the civil liability provisions of the U.S. federal securities laws or other laws of the U.S. or any state thereof.

Risks relating to the Securities

Set out below is a brief description of certain risks relating to the Securities, including given their particular features.

The Issuer may at any time elect, and in certain circumstances shall be required, to cancel Distribution payments on the Securities.

The Issuer may at any time elect, in its sole and full discretion, to cancel any Distribution payment (in whole or in part) on the Securities which would otherwise be due on any Distribution Payment Date. Furthermore, the Issuer shall be required to cancel any Distribution payment (in whole or in part) which would otherwise fall due on a Distribution Payment Date if and to the extent that payment of such Distribution would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Issuer or when aggregated with other relevant distributions, cause any Maximum Distributable Amount then applicable to the Group to be exceeded. Furthermore, all payments in respect of or arising from the Securities are subject to the satisfaction of the solvency condition described in Condition 3(a). Additionally, the Regulator has the power under section 55M of the FSMA (implementing Article 104 of the Capital Requirements Directive) to restrict or prohibit payments by an issuer of distributions to holders of additional tier 1 instruments (such as the Securities). These risks are further discussed in the following four risk factors.

If a Loss Absorption Event occurs, all accrued and unpaid Distributions will be cancelled. See further "*The entire principal amount of the Securities will be written off on a permanent basis and all accrued and unpaid Distributions cancelled if a Loss Absorption Event occurs.*"

Distribution payments on the Securities are discretionary and the Issuer may cancel Distribution payments, in whole or in part, at any time. Cancelled Distributions will not be due and will not accumulate or be payable at any time thereafter and investors shall have no rights to receive such Distributions or any amount in lieu thereof.

Distributions on the Securities will be due and payable only at the sole and full discretion of the Issuer. The Issuer will have absolute discretion at all times and for any or no reason to cancel any Distribution payment, in whole or in part, that would otherwise be payable on any Distribution Payment Date.

Distributions will only be due and payable on a Distribution Payment Date if and to the extent such Distributions are not cancelled in accordance with the terms of, the Securities. If the Issuer cancels any scheduled Distribution payment, such Distribution payment will not be or become due and payable at any time thereafter, and accordingly non-payment of such Distribution (or any part thereof) will not constitute a default on the part of the Issuer for any purpose under the Securities. Therefore, in no event will Securityholders have any right to or claim against the Issuer with respect to the amount of such cancelled Distribution (or any amount in lieu thereof) or be able to accelerate the principal of the Securities or take any other enforcement as a result of such Distribution cancellation. Accordingly, there can be no assurance that a Securityholder will receive Distribution payments in respect of the Securities.

Following cancellation of any Distribution payment in respect of the Securities, the Issuer will not be in any way limited or restricted from making any dividend, distribution, interest or equivalent payments on or in respect of any other liabilities or share capital of the Issuer, including dividend payments on the Issuer's ordinary shares. The Issuer may therefore cancel (in whole or in part) any Distribution payment on the Securities at its discretion and continue to pay dividends on its ordinary shares as well as making dividend or other payments on any preference shares, additional tier 1 instruments and other obligations of the Issuer, notwithstanding such cancellation. In addition, the Issuer may without restriction use funds that could have been applied to make such cancelled payments to meet its other obligations as they become due.

It is the Issuer's current intention that, whenever exercising its discretion to declare any dividend in respect of its ordinary shares, or its discretion to cancel Distributions on the Securities, the Issuer will take into account the relative ranking of these instruments in its capital structure. However, the Issuer may at any time depart from this policy at its sole discretion.

In addition to the Issuer's right to cancel, in whole or in part, Distribution payments on the Securities at any time, the Conditions also restrict the Issuer from making Distribution payments on the Securities if the Issuer has insufficient Distributable Items (based on its individual accounts and not on its consolidated accounts), in which case such Distributions shall be cancelled.

The Issuer shall cancel a Distribution payment (or part thereof) on the Securities on any Distribution Payment Date (and such Distribution payment or the relevant part thereof shall not become due and payable on such date) if and to the extent that payment of the same would, when aggregated together with any distributions on all other own funds instruments (excluding Tier 2 Capital instruments) which are paid or required to be paid in the then current financial year of the Issuer, exceed the amount of the Issuer's Distributable Items for such financial year.

Any Distribution (or part thereof) so cancelled shall not become due and such Distribution (or the relevant part thereof) shall not accumulate or be payable at any time thereafter, and Securityholders shall have no rights thereto or to receive any additional Distributions or compensation as a result of such cancellation. Furthermore, no cancellation of Distributions in accordance with the Conditions shall constitute a default on the part of the Issuer for any purpose under the terms of the Securities, and holders of the Securities will not be entitled to accelerate the principal of the Securities or take any other enforcement action as a result of such Distribution cancellation.

See also "*As a holding company, investors in the Securities will be structurally subordinated to creditors of the Issuer's operating subsidiaries, and the level of Distributable Items is affected by a number of factors, and insufficient Distributable Items may restrict the Issuer's ability to make Distribution payments on the Securities.*"

CRD IV includes restrictions on distributions that will restrict the Issuer from making Distribution payments on the Securities in certain circumstances, in which case the Issuer will cancel such Distribution payments. In addition, the PRA has the power under section 55M of the Financial Services and Markets Act 2000 (implementing Article 104 of the Capital Requirements Directive) to restrict or prohibit payments of Distributions by the Issuer to Securityholders and the FSB has issued a proposal on TLAC which, if implemented, may further restrict or prohibit payments of Distributions by the Issuer to Securityholders.

In addition to the requirements described under "*The Group is subject to regulatory capital and leverage requirements that could limit the Group's operations, and changes to these* *requirements may further limit and adversely affect the Group's operating results, financial condition and prospects*" above, CRD IV also introduces capital buffer requirements that are in addition to the Pillar 1 requirements and any extra capital requirements added by supervisors to cover risks they believe are not covered or insufficiently covered by the Pillar 1 requirements (the "**Pillar 2A guidance**") and are required to be met with common equity tier 1 capital. It introduces five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Group as determined by the PRA. The "combined buffer requirement" is, broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution) the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution.

Under Article 141 (Restrictions on distributions) of the CRD IV Directive, Member States of the EU must require that institutions that fail to meet the "combined buffer requirement" will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to common equity tier 1 capital, variable remuneration and payments on additional tier 1 instruments such as the Securities). In addition, in a policy statement published in November 2016, the BoE indicated that firms failing to meet the "combined buffer requirement" and the PRA buffer will be expected to notify the PRA of this as soon as practicable and that such firms can expect enhanced supervisory action and should prepare a capital resolution plan.

The maximum amount of discretionary payments that are permitted under CRD IV when an institution fails to meet the combined buffer (the "**maximum distributable amount**") is calculated by multiplying the profits of the institution made since the most recent decision on the distribution of profits or other discretionary payment by a scaling factor. In the bottom quartile of the combined buffer requirement the scaling factor is 0, and all discretionary payments are prohibited. In the second quartile the scaling factor is 0.2, in the third it is 0.4 and in the top quartile it is 0.6. In the event of breach of the combined buffer requirement the Issuer will be required to calculate its maximum distributable amount, and as a consequence it may be necessary for the Issuer to reduce discretionary payments, including potentially exercising its discretion to cancel (in whole or in part) Distribution payments in respect of the Securities.

The Group's capital requirements, including Pillar 2A guidance, are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. The PRA increased transparency around the Pillar 2A process through the publication in July 2015 of a consultation paper that included a statement of policy on its methodology for setting Pillar 2 Capital and a supervisory statement on Internal Capital Adequacy Assessment Process and Supervisory Review and Evaluation Process. Moreover, the PRA has introduced a new "PRA buffer" (replacing the current PRA Capital Planning Buffer), which will form part of the Pillar 2B capital buffers and will supplement the CRD IV combined buffer requirement. The PRA buffer is being phased in over the period from 1 January 2016 to 1 January 2019, by which time it will need to be met fully with Common Equity Tier 1 capital. A failure to satisfy the PRA buffer, if one were to be imposed on the Group, could result in the Group being required to prepare a capital restoration plan. This may, but would not automatically, provide for or result in restrictions on discretionary payments being made by the Group.

Investors may not be able to predict accurately the proximity of the risk of discretionary payments on the Securities being prohibited from time to time as a result of the operation of Article 141. In this regard, the PRA published a Supervisory Statement (SS6/14) and a Policy Statement (PS3/14) in April 2014 which set out the expectations of the PRA on CRD IV capital buffers and provide some clarifications of the PRA rules. The Policy Statement (PS3/14) also contains the final rules implementing the capital buffer requirements of the CRD IV Directive, most of which (including Rule 4.3 which sets out the method of calculating the maximum distributable amount and restrictions on distributions on additional tier 1 instruments relating to the maximum distributable amount) came into force on 1 May 2014. In a Supervisory Statement (SS16/16) issued in November 2016, the PRA set out its policy regarding the interaction of MREL with capital buffers. The Policy Statement states, consistent with the approach proposed by the FSB for TLAC, that firms should not be permitted to double count CET1 towards both MREL and their capital buffers. The BoE also published a Statement of Policy on MREL in November 2016, which should be read in conjunction with the PRA Supervisory Statement. The BoE's Statement of Policy largely affirmed its earlier approach to MREL but extended the transitional period to meet end-state MREL by two years to January 2022. As set out above, firms will be subject to a transitional interim requirement from 2019.

The FSB's final TLAC term sheet published on 10 November 2015 emphasises that, throughout the duration of any breach of regulatory capital buffer requirements, the restrictions contemplated by Basel III (and implemented in the EU through Article 141 of the CRD IV Directive) on discretionary payments would apply. There is a risk that future regulatory developments (including the development of the TLAC proposals) could lead to the potential for further restrictions on the Issuer's ability to make interest payments on the Securities or to redeem the Securities.

In addition, the PRA has the power under section 55M of FSMA (implementing Article 104 of CRD IV Directive) to impose requirements on the Issuer to maintain specified levels of capital on a consolidated basis. These requirements could make it impossible for the Issuer to make Distribution payments on the Securities or to redeem the Securities without placing the Issuer in breach of its regulatory obligations concerning the consolidated capital position of the Issuer. The risk of any such intervention by the PRA is most likely to materialise if at any time the Issuer is failing, or is expected to fail, to meet its capital requirements.

Any Distributions cancelled as a result of an applicable maximum distributable amount or as a result of regulatory discretion under Section 55M of the FSMA shall not become due and shall not accumulate or be payable at any time thereafter.

All payments in respect of or arising from the Securities are conditional upon the Issuer being solvent at the time of payment by the Issuer and immediately thereafter

Condition 3(a) provides that (except in a winding-up) all payments in respect of or arising from the Securities are conditional upon the Issuer being solvent at the time of payment by the Issuer and that no payment shall be due and payable in respect of or arising from the Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. Non-payment of any Distributions or principal as a result of the solvency condition in Condition 3(a) not being satisfied shall not constitute a default on the part of the Issuer for any purpose under the terms of the Securities, and holders of the Securities will not be entitled to accelerate the principal of the Securities or take any other enforcement as a result of any such non-payment.

As the Issuer is a holding company, investors in the Securities will be structurally subordinated to creditors of the Issuer's operating subsidiaries, the level of Distributable Items is affected by a number of factors, and insufficient Distributable Items may restrict the Issuer's ability to make Distribution payments on the Securities.

As a holding company, the Issuer relies upon its operating subsidiaries to distribute or dividend profits up the Group structure to the Issuer, including after liabilities to the creditors of the operating subsidiaries have been paid. Accordingly, the investors in the Securities will be structurally subordinated to creditors of the operating subsidiaries of the Issuer (in addition to being subordinated within the Issuer's creditor hierarchy as further discussed below under "*The Securities are unsecured and subordinated obligations of the Issuer. On a winding-up of the Issuer, investors in the Securities may lose their entire investment in the Securities.*")

Further, as a holding company, the level of the Issuer's Distributable Items is affected by a number of factors, principally its ability to receive funds, directly or indirectly, from its operating subsidiaries in a manner which creates Distributable Items. Consequently, the Issuer's future Distributable Items, and therefore the Issuer's ability to make Distribution payments, are a function of the Issuer's existing Distributable Items, the Group's operating profits and distributions to the Issuer from its operating subsidiaries. In addition, the Issuer's Distributable Items may also be adversely affected by the servicing of senior-ranking obligations.

The ability of the Issuer's subsidiaries to pay dividends and the Issuer's ability to receive distributions from the Issuer's investments in other entities is subject to applicable local laws and other restrictions, including their respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws, and any changes thereto. These laws and restrictions could limit the payment of dividends and distributions to the Issuer by the Issuer's subsidiaries, and to the extent that the Issuer is dependent on the receipt of such dividends and distributions as opposed to other sources of income, such as interest and other payments from its subsidiaries, this could in turn restrict the Issuer's ability to fund other operations or to maintain or increase its Distributable Items. Further, the Issuer's rights to participate in assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors, except to the extent that the Issuer may be a creditor with recognised claims ranking ahead of, or *pari passu* with, such prior claims against such subsidiary.

The entire principal amount of the Securities will be written off on a permanent basis and all accrued and unpaid Distributions will be cancelled if a Loss Absorption Event occurs.

Under the terms of the Securities, if at any time a Loss Absorption Event occurs, all accrued and unpaid Distributions will be cancelled and the entire principal amount of the Securities will be written down to zero on a permanent basis and cancelled. In such circumstances, the Securityholders will have no rights or claims against the Issuer with respect to the principal amount of the Securities, any Distributions or any other amounts under or in respect of the Securities at any time thereafter, whether in a winding-up of the Issuer or otherwise, and there will be no reinstatement (in whole or in part) of the principal amount of the Securities at any time. Accordingly, of a Loss Absorption Event occurs, holders of the Securities will lose their entire investment in the Securities.

A Loss Absorption Event will occur if at any time the Common Equity Tier 1 Capital Ratio of the Group is less than 7 per cent. Whether a Loss Absorption Event has occurred at any time shall be determined by the Issuer and such determination shall be binding on the Trustee and the Securityholders. The Common Equity Tier 1 Capital Ratio will be calculated on a consolidated basis and without applying the transitional provisions set out in Part Ten of the Capital Requirements Regulation and otherwise in accordance with the applicable prudential rules as at such date. The following two risk factors include discussion of certain risks associated with the determination of the Group's Common Equity Tier 1 Capital Ratio.

In addition, the market price of the Securities is expected to be affected by fluctuations in the Group's Common Equity Tier 1 Capital Ratio. Any reduction in the Group's Common Equity Tier 1 Capital Ratio may have an adverse effect on the market price of the Securities, and such adverse effect may be particularly significant if there is any indication or expectation that the Group's Common Equity Tier 1 Capital Ratio is or is near 7 per cent. This could also result in reduced liquidity and/or increased volatility of the market price of the Securities.

The circumstances surrounding or triggering an Automatic Write Down are inherently unpredictable and may be caused by factors outside of the Issuer's control. The Issuer has no obligation to operate its businesses in such a way, or take any mitigating actions, to maintain or restore the Group's Common Equity Tier 1 Capital Ratio to avoid a Loss Absorption Event and actions the Group takes could result in the Group's Common Equity Tier 1 Capital Ratio falling.

The occurrence of a Loss Absorption Event and, therefore, an Automatic Write Down, is inherently unpredictable and depends on a number of factors, some of which may be outside of the Issuer's control. Although the Issuer currently publicly reports the Group's "end point" Common Equity Tier 1 Capital Ratio (i.e. on a consolidated basis and without applying the transitional provisions set out in Part Ten of the Capital Requirements Regulation) only as of each quarterly period end, the Loss Absorption Event will occur if at any time the Common Equity Tier 1 Capital Ratio of the Group is less than 7 per cent. Whether a Loss Absorption Event has occurred at any time shall be determined by the Issuer and such determination shall be binding on the Trustee and the Securityholders. As such, an Automatic Write Down could occur at any time.

The calculation of the Common Equity Tier 1 Capital Ratio of the Group could be affected by, among other things, the growth of the Group's business and the Group's future earnings, dividend payments, regulatory changes (including changes to definitions and calculations of regulatory capital, including Common Equity Tier 1 Capital and Risk Weighted Assets (each of which shall be calculated by the Issuer on an end-point, consolidated basis)), actions that the Issuer or its regulated subsidiaries are required to take at the direction of the Regulator and the Group's ability to manage Risk Weighted Assets in both its on-going businesses and those which it may seek to exit. In addition, the Group has capital resources and risk weighted assets denominated in foreign currencies, and changes in relevant foreign exchange rates will result in changes in the sterling equivalent value of capital resources and risk weighted assets in the relevant foreign currency. Actions that the Group takes could also affect the Group's Common Equity Tier 1 Capital Ratio, including causing it to decline. The Issuer has no contractual obligation to increase the Group's Common Equity Tier 1 Capital, reduce its Risk Weighted Assets or otherwise operate its business in such a way, take mitigating actions in order to prevent the Group's Common Equity Tier 1 Capital Ratio from falling below 7 per cent., to maintain or increase the Group's Common Equity Tier 1 Capital Ratio or otherwise to consider the interests of the Securityholders in connection with any of its business decisions that might affect the Group's Common Equity Tier 1 Capital Ratio.

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

Because of the inherent uncertainty regarding whether a Loss Absorption Event will occur and there being no obligation on the Issuer's part to prevent its occurrence, it will be difficult to predict when, if at all, an Automatic Write Down could occur. Accordingly, the trading behaviour of any Securities may not necessarily follow the trading behaviour of other types of subordinated securities, including any other subordinated debt securities which may be issued by the Issuer in the future. Fluctuations in the Common Equity Tier 1 Capital Ratio of the Group may be caused by changes in the amount of Common Equity Tier 1 Capital of the Group and its Risk Weighted Assets as well as changes to their respective definitions or method of calculation (including as to the application of adjustments and deductions) under the Capital Rules applicable to the Issuer.

Any indication or expectation that the Group's Common Equity Tier 1 Capital Ratio is moving towards the level which would cause the occurrence of a Loss Absorption Event can be expected to have an adverse effect on the market price and liquidity of the Securities. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to other types of subordinated securities, including the Issuer's other subordinated debt securities.

A Loss Absorption Event may be triggered even when the Group's Common Equity Tier 1 Capital Ratio is above 7.0%, which could cause investors to lose all or part of the value of their investment in the Securities.

Under CRD IV, the Group is required to calculate its consolidated capital resources for regulatory purposes on the basis of "common equity Tier 1 capital" instead of "core Tier 1 capital" (as has historically been calculated and published). The Group is also required to calculate its risk weighted assets, which represent its assets adjusted for their associated risk, on a different basis than it did prior to CRD IV. CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority or changes to the way in which the PRA interprets and applies these requirements to U.K. banks (including as regards individual model approvals granted by the PRA). In addition, the Basel Committee is proposing a number of changes to the current regulatory framework such as the Fundamental Review of the Trading Book, revisions to the standardised approach to credit risk and proposals to impose a standardised floor on modelled risk capital requirements. These proposals have yet to be finalised and the timing has yet to be determined. Any such proposals and resulting changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's CRD IV capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated. See "*The entire principal amount of the Securities will be written off on a permanent basis and all accrued and unpaid Distributions will be cancelled if a Loss Absorption Event occurs*".

Investors should be aware that the CRD IV rules and their implementation in the United Kingdom subsequent to the date hereof may individually and/or in the aggregate further negatively affect the Group's Common Equity Tier 1 Capital Radio and thus increase the risk of a Loss Absorption Event, which will lead to an Automatic Write Down.

The Securities may be subject to statutory bail-in or write down powers under the Banking Act and the BRRD

As described in the risk factor entitled "*Bail-in and write down powers under the Banking Act and the BRRD may adversely affect the Group's business and the value of securities it may issue*" above, the BRRD bail-in power has been implemented in the UK. The UK bail-in power is an additional power available to the UK resolution authorities under the special resolution regime provided for in the Banking Act to enable them to recapitalise a failed institution by allocating losses to such institution's shareholders and unsecured creditors subject to the rights of such shareholders and unsecured creditors to be compensated under a bail-in compensation order, which is based on the principle that such creditors should receive no less favourable treatment than they would have received had the bank entered into insolvency immediately before the coming into effect of the bail-in power. The bail-in power includes the power to cancel or write down (in whole or in part) certain liabilities or to modify the terms of certain contracts (including changes to the maturity of instruments or the interest rate under such instruments) for the purposes of reducing or deferring the liabilities (including suspension of payments for a certain period) of a relevant institution under resolution and the power to convert certain liabilities into shares (or other instruments of ownership) of the relevant institution.

The Securities are a liability which could be cancelled, written down (in whole or in part) or converted pursuant to the exercise of the bail-in power. In accordance with the insolvency treatment principles described in the risk factor entitled '*Bail-in and write down powers under the Banking Act and the BRRD may adversely affect the Group's business and the value of securities it may issue*' above, the Securities would be amongst the first of the Issuer's obligations to bear losses through write-down or conversion to equity pursuant to the exercise of the bail-in power because in the event of the insolvency of the Issuer, the claims in respect of the Securities would rank behind all other claims other than claims in respect of share capital of the Issuer.

The BRRD also contains a mandatory write down power which requires Member States to grant powers to resolution authorities to recapitalise institutions and/or their EEA parent holding companies that are in severe financial difficulty or at the point of non-viability by permanently writing down, inter alia, capital instruments such as the Securities, or converting those capital instruments into shares. The mandatory write down provision has been implemented in the UK through the Banking Act, and would apply to the Securities. Before taking any form of resolution action or applying any resolution power set out in BRRD, the UK resolution authorities have the power (and are obliged when specified conditions are determined to have been met) to write down, or convert capital instruments such as the Securities into common equity tier 1 capital instruments before, or simultaneously with, the entry into resolution of the relevant entity. These measures could be applied to the Securities.

In contrast to the creditor protections afforded in the event of the bail-in powers being exercised, holders of the Securities would not be entitled to the 'no creditor worse off' protections under the Banking Act in the event that the Securities are written down or converted to equity under the mandatory write-down tool (unless the mandatory write-down tool were to be used alongside a bail in).

Furthermore, if the Securities were to be converted into equity securities by application of the mandatory write-down tool, those equity securities may be subjected to the bail-in powers in resolution, resulting in their cancellation, significant dilution or transfer away from the investors therein.

The Securities are unsecured and subordinated obligations of the Issuer. On a winding-up of the Issuer, investors in the Securities may lose their entire investment in the Securities.

The Issuer's payment obligations under the Securities will be unsecured and will be deeply subordinated (i) on a winding-up of the Issuer, and (ii) in the event that an administrator is appointed to the Issuer and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of unsubordinated creditors of the Issuer and claims in respect of any subordinated indebtedness of the Issuer (other than indebtedness which ranks, or is expressed to rank, *pari passu* with or junior to the Securities). The Securities represent the most junior-ranking claim in a winding-up or administration of the Issuer other than claims in respect of the ordinary share capital of the Issuer.

Accordingly, in the event of a winding-up or administration of the Issuer, the assets of the Issuer would first be applied in satisfying all senior-ranking claims in full, and payments would be made to holders of the Securities, *pro rata* and proportionately with payments made to holders of any other *pari passu* instruments (if any), only if and to the extent that there are any assets remaining after satisfaction in full of all such senior-ranking claims. If, in such circumstances, the Issuer's assets are insufficient to meet all its obligations to senior-ranking creditors, the holders of the Securities will lose their entire investment in the Securities, or if there are sufficient assets to meet all senior-ranking claims but not all claims in respect of the Securities and *pari passu* liabilities, the holders of the Securities will lose some (which may be substantially all) of their investment in the Securities. As a deeply subordinated instrument, if the Issuer enters into a winding-up or administration due to insolvency, there is a significant risk that investors would lose all of their investment in the Securities.

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Securities and accordingly, the Issuer may at any time incur, issue further debt or securities which rank senior to, or *pari passu* with, the Securities. Consequently there can be no assurance that the current level of senior or *pari passu* debt of the Issuer will not change. The issue of any such securities may reduce the amount (if any) recoverable by Securityholders on a winding-up or administration of the Issuer.

If the Issuer's financial condition deteriorates such that there is an increased risk that the Issuer may be wound up or enter into administration, such circumstances can be expected to have a material adverse effect on the market price of the Securities. Investors in the Securities may find it difficult to sell their Securities in such circumstances, or may only be able to sell their Securities at a price which may be significantly lower than the price at which they purchased their Securities. In such a sale, investors may lose some or substantially all of their investment in the Securities, whether or not the Issuer is wound up or enters into administration. Further, trading behaviour in relation to the securities of the Issuer (including the Securities), including market prices and volatility, is likely to be affected by the use or any suggestion of the use of these powers and accordingly, in such circumstances, the Securities may not follow the trading behaviour associated with other types of securities.

The relative ranking of creditors in a winding-up or administration of the Issuer will also determine the order in which losses are incurred in the event of exercise of the write-down and conversion of capital instruments power and/or the bail-in power in the event that the UK resolution authorities exercise powers under the Banking Act.

Although the Securities may potentially pay a higher rate of Distribution (but subject always to the discretion of and, in certain circumstances, requirement on the Issuer to cancel Distributions as previously described in these risk factors) than comparable Securities which are not subordinated, there is a real risk that an investor in the Securities will lose all or some of its investment should the Issuer become insolvent.

The Securities have no scheduled maturity and Securityholders only have a limited ability to cash in their investment in the Securities.

The Securities are perpetual securities and have no fixed maturity date or fixed redemption date. Although under certain circumstances, as described under Condition 6, the Issuer may elect in its sole discretion to redeem the Securities, the Issuer is under no obligation to do so and Securityholders have no right to call for their redemption. Therefore, Securityholders have no option to cash in their investment except by selling their Securities in the secondary market. See also "*The Securities lack a developed trading market and are subject to selling and transfer restrictions that may affect the existence and liquidity of any secondary market in the Securities.*" below.

Redemption of the Securities is at all times at the discretion of the Issuer, and an investor may not be able to reinvest the redemption proceeds at as effective a rate of return as that in respect of the Securities.

The Securities may, subject as provided in Condition 6, be redeemed at the sole discretion of the Issuer (i) on the First Reset Date or any Reset Date thereafter, or (ii) if a Tax Event or Regulatory Capital Event occurs, as further provided in Conditions 6(c) and 6(d), respectively. Any such redemption will be at the principal amount of the Securities together with any unpaid Distributions from the then most recent Distribution Payment Date (but excluding any Distributions which have been cancelled in accordance with the Conditions).

The Issuer's right to redeem is subject to the prior consent of the Regulator and other conditions specified in the Conditions. Subject to satisfaction of those conditions, the Issuer may choose to redeem the Securities at times when prevailing interest rates offer a cheaper cost of funding to the Issuer than the relevant Distribution Rate then applicable to the Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the Distribution Rate on the Securities being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

An optional redemption feature in relation to any security is likely to limit its market value. During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Distribution Rate on the Securities will be reset on each Reset Date, which may impact the market price of the Securities.

The Securities will bear Distributions at a fixed rate, reset on five-year intervals on each Reset Date by reference to the then prevailing 5-year Mid-Swap Rate plus the Margin (being the initial credit spread on the Securities), adjusted for quarterly payments, all as specified in Condition 5.

The market price of securities bearing a fixed rate of interest may be adversely impacted by changes in prevailing market interest rates. In addition, the reset of the Distribution Rate in accordance with such provisions may affect the secondary market for, and the market value of, the Securities. Following any such reset of the Distribution Rate applicable to the Securities, the Reset Rate on the Securities may be lower than the Initial Distribution Rate or any previous Reset Rates.

The Securities may be traded with accrued Distributions, but under certain circumstances described above, such Distribution may be cancelled and not paid on the relevant Distribution Payment Date.

Any Security may trade, and/or the prices for Securities may appear on any stock exchange or other market or trading systems, with accrued Distributions.

However, if a payment of Distributions on any date on which Distributions are payable is cancelled (in each case, in whole or in part) and thus is not due and payable, purchasers of such Securities will not be entitled to that Distribution payment (or the cancelled part thereof) on the relevant date. This may affect a Securityholder's ability to sell Securities in the secondary market.

The Conditions may be modified and certain decisions regarding the Securities may be made without the knowledge and consent of individual Securityholders.

The Trust Deed constituting the Securities contains provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority. The Trust Deed constituting the Securities also provides that, subject to the prior consent of the Regulator being obtained (to the extent that such consent is required), the Trustee may (except as set out in the Trust Deed), without the consent of Securityholders, agree to certain modifications of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Securities or to the substitution of another company as principal debtor under the Securities in place of the Issuer in the circumstances described in Condition 12.

The Securities contain limited events of default and the remedies available thereunder are limited.

The only events of default under the Conditions are where (i) the Issuer fails to pay principal in respect of the Securities within seven days of the same having become due for payment, or (ii) the Issuer enters into a winding-up or administration (other than an Approved Winding-up). Investors should note than non-payment of Distributions which are cancelled under the Conditions does not constitute an event of default and will not entitle the Trustee or Securityholders to take any enforcement action. Non-payment of any Distribution or part thereof on a Distribution Payment Date will be evidence that the Issuer has elected or is required to cancel such Distribution (or the relevant part thereof).

The sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Securityholder for recovery of amounts in respect of the Securities will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up or administration and/or claiming in the liquidation of the Issuer, in which case the claim shall be deeply subordinated as provided in Condition 4. The Trustee and the Securityholders may not take any further or other action to enforce, prove or claim for any payment in respect of the Securities.

The Securities may have no established trading market when issued and are subject to selling and transfer restrictions that may affect the existence and liquidity of any secondary market in the Securities.

The Securities may have no established trading market when issued, and one may never develop. If a market does develop it may not be liquid. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Securities.

Further, the Securities have not been, and will not be, registered under the Securities Act or any other securities laws. Accordingly, the Securities are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale*", which may further impact the development of a secondary market.

If a market for the Securities does develop, the trading price of the Securities may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Securities. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Securities does develop, it may become severely restricted, or may disappear, if the financial condition and/or the Common Equity Tier 1 Capital Ratio of the Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable, or electing to direct the Issuer not, to pay Distributions on the Securities in full, or of an Automatic Write Down of the Securities occurring or the Securities otherwise becoming subject to loss absorption under the Conditions or the Banking Act. In addition, the market price of the Securities may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

- variations in operating results in the Group's reporting periods;

- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;

- increases in capital expenditure compared with expectations;

- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;

- changes in financial estimates by securities analysts;

- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations, PRA or FCA requirements;
- additions or departures of key personnel; and
- future issues or sales of Securities or other securities.

Any or all of these events could result in material fluctuations in the price of Securities which could lead to investors losing some or all of their investment if they elect to sell them.

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

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

In addition, Securityholders should be aware of global credit market conditions, whereby there is a general lack of liquidity in the secondary market which may result in investors suffering losses on the Securities in secondary resales even if there is no decline in the performance of the Securities or the assets of the Issuer.

Although application has been made for the Securities to be admitted to trading on the London Stock Exchange, there is no assurance that an active trading market will develop.

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

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

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

A change of law may adversely affect Securityholders.

The Conditions are based on English law in effect as at the date of issue of the Securities. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Securities.

If definitive Securities are issued, Securityholders should be aware that definitive Securities which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

The denominations of the Securities are £200,000 and integral multiples of £1,000 in excess thereof. Accordingly, it is possible that the Securities may be traded in the clearing systems in amounts in excess of £200,000 that are not integral multiples of £200,000. Should definitive Securities be required to be issued, they will be issued in principal amounts of £200,000 and higher integral multiples of £1,000 but will in no circumstances be issued to Securityholders who hold Securities in the relevant clearing system in amounts that are less than £200,000.

If definitive Securities are issued, Securityholders should be aware that definitive Securities which have a denomination that is not an integral multiple of £200,000 may be illiquid and difficult to trade.

Because the Global Security will be held by or on behalf of Euroclear and Clearstream, Luxembourg investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Securities will upon issue be represented by interests in unrestricted and restricted global registered certificates, deposited and registered in the name of a common depositary for Euroclear and Clearstream, Luxembourg. Except in the limited circumstances described in the relevant Global Certificate, investors will not be entitled to receive definitive Securities. Euroclear and Clearstream, Luxembourg will maintain records of the interests in the Global Certificates and interests therein will be traded only through Euroclear and/or Clearstream, Luxembourg, as the case may be, subject to the rules and regulations of such clearing system.

While Securities are represented by one or more Global Certificates, the Issuer will discharge its payment obligations under such Securities by making payments to or to the order of the relevant clearing system nominee and a holder of an interest in a Global Certificate must rely on the procedures of the relevant clearing system in which it holds such interest to receive payments under the relevant Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, interests in the Global Certificates.

Exchange rate risks and exchange controls may result in investors receiving less Distributions or principal than expected.

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

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

Credit ratings may not reflect all risks relating to the Securities, and a reduction in credit ratings may adversely affect the market price of Securities.

The Securities are expected, on issue, to be rated Ba2(hyb) by Moody's, BB+ by Fitch and B+ by S&P. 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 Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the assigning rating agency at any time.

If a credit rating assigned to the Securities is lower than otherwise expected, or any such credit rating is lowered (whether as a result of a change in the financial condition of the Issuer or as a change in the ratings methodology applied by the relevant rating agency), the market price of the Securities may be adversely affected. Securities with lower ratings, in particular those securities that are not considered to be investment grade securities, will generally be subject to a higher risk of price volatility than higher-rated securities. Furthermore, increases in leverage or deteriorating outlooks for the Issuer or volatile markets could lead to a significant deterioration in market prices of below-investment grade rated securities.

Use of Proceeds

The net proceeds of the issue will be used by the Issuer for general corporate purposes of the Group and to further strengthen the Group’s regulatory capital base.

Overview of the Principal Features of the Securities

The following overview refers to certain provisions of the terms and conditions of the Securities and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Offering Memorandum. Terms which are defined in "Terms and Conditions of the Securities" below have the same meaning when used in this overview, and references herein to a numbered "Condition" shall refer to the relevant Condition in "Terms and Conditions of the Securities".

Issue	£500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities.
Issuer	Santander UK Group Holdings plc.
Issue Date	10 April 2017.
Trustee	The Law Debenture Trust Corporation p.l.c.
Status and Subordination	The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. As provided herein, the rights and claims of the Securityholders against the Issuer are subordinated in a winding-up or administration of the Issuer in accordance with Condition 4 and the provisions of the Trust Deed.
Distributions	The Securities will bear interest for the period from, and including, the Issue Date to, but excluding, 24 June 2024 at a fixed rate of 6.75 per cent. per annum. The Distribution Rate will be reset on each Reset Date. From (and including) each Reset Date to (but excluding) the next succeeding Reset Date thereafter, the Distribution Rate shall be the aggregate of 5.792 per cent. per annum and the applicable 5-year Mid-Swap Rate determined in accordance with Condition 5.
Distribution Payment Dates	Distributions will be payable quarterly in arrear on the Distribution Payment Dates, subject to cancellation as provided herein, on 24 March, 24 June, 24 September and 24 December of each year, except that the Distributions payable (subject as aforesaid) on the first Distribution Payment Date (being 24 June 2017) shall be in respect of the short first Distribution Period from (and including) the Issue Date to (but excluding) 24 June 2017.
Cancellation of Distributions	The Issuer may at any time elect, in its sole and full discretion, to cancel (in whole or in part) the Distribution Amount (as defined herein) otherwise scheduled to be paid on any Distribution Payment Date. The Issuer shall cancel any Distribution Amount otherwise scheduled to be paid on a Distribution Payment Date to the extent that such Distribution Amount together with any Additional Amounts

	payable with respect thereto, when aggregated with any distributions or payments on all other own funds instruments (excluding Tier 2 Capital instruments), paid, declared or required to be paid in the then current financial year of the Issuer exceeds the amount of the Issuer's Distributable Items. Subject as provided herein, all payments in respect of or arising from the Securities (including Distributions and principal) are conditional upon the Issuer being solvent at the time of payment by the Issuer and immediately following payment. *Whilst a breach by the Issuer of applicable capital buffer requirements will not necessarily result in the cancellation of Distribution Amounts, the Issuer will be required to cancel any Distribution Amount (in whole or in part) if and to the extent that payment of such Distribution Amount would, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law implementing, transposing or replacing such Article in the UK), cause the Maximum Distributable Amount (if any) then applicable to the Group to be exceeded. "**Maximum Distributable Amount**" means any maximum distributable amount relating to the Group required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or, as the case may be, any provision of UK law transposing, implementing or replacing the Capital Requirements Directive).* All accrued and unpaid Distributions will also be cancelled if a Loss Absorption Event occurs (as further described herein). The cancellation of any Distribution Amount (in whole or in part) shall not constitute a default for any purpose on the part of the Issuer and Distribution Amounts which are cancelled do not become due and are non-cumulative.
Perpetual Securities	The Securities are perpetual securities with no fixed redemption date, and the Securityholders have no right to require the Issuer to redeem or purchase the Securities at any time.
Redemption at the Option of the Issuer	The Issuer may, subject to (i) the Solvency Condition in Condition 3(a), (ii) the Issuer having obtained Regulatory Approval and (iii) compliance with the Regulatory Preconditions and upon notice to Securityholders, elect to redeem all, but not some only, of the Securities on the First Reset Date or any Reset Date thereafter at their principal amount together with any accrued and unpaid Distributions to (but excluding) the date of redemption (but excluding Distributions which have been cancelled in accordance with the Conditions).
Redemption at the	The Issuer may, subject to (i) the Solvency Condition in Condition

Option of the Issuer upon occurrence of a Tax Event or a Regulatory Capital Event

3(a), (ii) the Issuer having obtained Regulatory Approval and (iii) compliance with the Regulatory Preconditions and upon notice to Securityholders, at any time elect to redeem all, but not some only of the Securities at their principal amount together with any accrued and unpaid Distributions to (but excluding) the date of redemption (but excluding Distributions which have been cancelled in accordance with the Condition), if a Tax Event or Regulatory Capital Event has occurred and is continuing (and, in the case of a Tax Event, the Issuer cannot avoid the consequences of such Tax Event by taking reasonable measures available to it).

A "**Tax Event**" will occur if:

(i) as a result of a Tax Law Change, in making any payments on the Securities, the Issuer will or would be required to pay Additional Amounts on the Securities;

(ii) as a result of a Tax Law Change (other than an Excluded Change):

(1) the Securities will or would no longer be treated as loan relationships for United Kingdom tax purposes;

(2) the Issuer will not or would not be entitled to claim a deduction in respect of any payments (other than the repayment of the principal amount of the Securities) in computing its taxation liabilities or the amount of the deduction would be materially reduced;

(3) the Issuer will not or would not, as a result of the Securities being in issue, be able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which the Issuer is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Securities or any similar system or systems having like effect as may from time to time exist);

(4) the Issuer will or would, in the future, have to bring into account a taxable credit, taxable profit or the receipt of taxable income if the principal amount of the Securities were written down, on a permanent or temporary basis, or the Securities were converted into ordinary shares in the capital of the Issuer, or

(5) the Securities or any part thereof will or would become treated as a derivative or an embedded

derivative for United Kingdom tax purposes.

"**Excluded Change**" means the enactment of legislation substantially in the form of the draft legislation relating to the restriction of relief for interest expenses set out in Schedule 10 of the Finance (No.2) Bill 2017 published on 20 March 2017.

A "**Regulatory Capital Event**" will occur if there is a change in the regulatory classification of the Securities occurring after the date of the issue of the Securities that does, or would be likely to, result in the Securities being fully or partially excluded from the Tier 1 Capital of the Group.

Loss Absorption Event

If a Loss Absorption Event occurs at any time, the Issuer shall immediately notify the Regulator, and on the following Business Day an Automatic Write Down shall occur, whereby all accrued and unpaid Distributions will be cancelled and the entire principal amount of the Securities will be written down to nil on a permanent basis and cancelled. In such circumstances, the Securityholders will have no rights or claims against the Issuer with respect to the principal amount of the Securities, any Distributions or any other amounts under or in respect of the Securities at any time thereafter, whether in a winding-up of the Issuer or otherwise, and there will be no reinstatement (in whole or in part) of the principal amount of the Securities at any time. Accordingly, if a Loss Absorption Event occurs, holders of the Securities will lose their entire investment in the Securities.

A "**Loss Absorption Event**" will occur if at any time the Common Equity Tier 1 Capital Ratio of the Group is less than 7 per cent. The Common Equity Tier 1 Capital Ratio will be calculated on a consolidated basis (and without applying any transitional or phasing in provisions) and in accordance with the applicable prudential rules as at such date. Whether a Loss Absorption Event has occurred at any time shall be determined by the Issuer and such determination shall be binding on the Trustee and the Securityholders.

Taxation

Payments on the Securities will be made without deduction or withholding for or on account of United Kingdom tax, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is required by law, in respect of the payment of any Distributions on (but not, for the avoidance of doubt, in respect of any principal of) the Securities, the Issuer will pay such additional amounts as shall be necessary in order that the amounts received by the Securityholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of such Distributions on the Securities in the absence of the withholding or deduction ("**Additional Amounts**"), subject to some exceptions, as described in Condition

9.

Non-payment and Enforcement	If default is made for a period of seven days or more in the payment of any principal due in respect of the Securities or any of them, the Trustee in its discretion may, and if so requested by Securityholders of at least one quarter in principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 11(c)), institute proceedings for the winding-up of the Issuer. If at any time prior to the date on which an Automatic Write Down occurs, a winding-up (whether or not instituted by the Trustee as aforesaid and other than an Approved Winding-up) or administration of the Issuer shall occur where the administrator has given notice that it intends to declare and distribute a dividend, the Trustee in its discretion may, and if so requested by Securityholders of at least one quarter in principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to Condition 11(c)), prove in the winding-up or administration of the Issuer. No further or other action may be taken to enforce, prove or claim for any such payment.
Form and Denomination	The Securities will be in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof.
Listing	Application has been made for the Securities to be admitted to the Official List of the UK Listing Authority and for the Securities to be admitted to trading on the London Stock Exchange's Regulated Market.
Ratings	The Securities are expected, on issue, to be rated Ba2(hyb) by Moody's, BB+ by Fitch and B+ by S&P.
Governing Law	The Securities and the Trust Deed, and any non-contractual obligations arising out of or in connection therewith, will be governed by and construed in accordance with English law.
Use of Proceeds	The net proceeds of the issue will be used by the Issuer for general corporate purposes of the Group and to further strengthen the Group's regulatory capital base.
Selling Restrictions	The Securities have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold to investors located in the U.S. or to U.S. persons. The Securities may be sold in other jurisdictions (including the UK) only in compliance with applicable laws and regulations. See "Subscription and Sale".

Terms and Conditions of the Securities

The £500,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the "**Securities**", which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 16 and forming a single series with the Securities) of Santander UK Group Holdings plc (the "**Issuer**") are constituted by a trust deed dated 10 April 2017 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Securities. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Securities referred to below. An Agency Agreement dated 10 April 2017 (as amended or supplemented from time to time, the "**Agency Agreement**") was entered into in relation to the Securities between the Issuer, the Trustee and Citibank, N.A. as Principal Paying Agent, Calculation Agent and transfer agent (the "**Transfer Agent**"), and Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**") (and the expressions Registrar and Transfer Agent shall include any successor registrar or transfer agent, respectively, appointed from time to time in connection with the Securities). The principal paying agent and any other paying agent(s) appointed under the Agency Agreement are referred to below respectively as the "**Principal Paying Agent**" and the "**Paying Agents**" (which expression shall include the Principal Paying Agent and any successor paying agent appointed from time to time in connection with the Securities). References herein to the "**Agents**" mean the Registrar, the Principal Paying Agent and the other Paying Agents, Transfer Agents and the Calculation Agent, unless the context otherwise admits. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the registered office of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents.

The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of, and be bound by, those provisions applicable to them of the Agency Agreement.

Condition 19 contains certain defined terms used herein.

1. Form, Denomination, Register and Title

(a) Form and Denomination

(i) The Securities will be in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof (each a "**Denomination**").

(ii) The Securities will be initially represented by a Global Security which will represent the principal amount of the Securities for the time being outstanding.

(iii) The Global Security will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg.

(iv) The Global Security will be exchanged for Securities in definitive registered form ("**Definitive Securities**") only if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee and the Issuer is available, in which case a Securityholder may give notice to the Registrar and the Transfer Agent to exchange the Global Security for Definitive Securities.

(v) Any Definitive Securities issued in exchange for beneficial interests in the Global Security will be issued to and delivered to such persons or registered in such name or names, as the case may be, as the holder of the Global Security shall instruct the Registrar and the Transfer Agent. It is expected that such instructions will be based upon directions received by Euroclear and Clearstream, Luxembourg from Relevant Account Holders with respect to ownership of beneficial interests in the Global Security. Notice of the issue of Definitive Securities in the circumstances set out in paragraph (iv) above will be given promptly by or on behalf of the Issuer to the Securityholders in accordance with Condition 17.

(b) Register

(i) The Registrar will maintain the Register in respect of the Securities in accordance with the provisions of the Agency Agreement.

(ii) The Global Security will be numbered with an identifying number which will be recorded on the Global Security and in the Register. If the Global Security is exchanged for Definitive Securities, such Definitive Securities will be serially numbered and issued in an aggregate principal amount equal to the principal amount outstanding of the Global Security and in registered form only.

(c) Title

A Securityholder shall (to the fullest extent permitted by applicable law) be treated by the Issuer, the Trustee, the Paying Agents, the Registrar and the Transfer Agent as the absolute owner of such Security for all purposes (including the making of any payment) regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer) and no person shall be liable for so treating such Securityholder.

2. Transfers

(a) Transfers of interests in Securities generally

(i) Beneficial interests in the Global Security will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by Euroclear and Clearstream, Luxembourg in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Security will be limited to persons who maintain accounts with Euroclear and Clearstream, Luxembourg or persons who hold interests through such persons. In each case, the request for a transfer must include details of the accounts at Euroclear or Clearstream, Luxembourg, as the case may be, to be credited and debited, respectively, with the relevant interests in the Global Security.

(ii) Title to the Securities shall pass by and upon registration in the Register. Subject as provided otherwise in this Condition 2, a Security may be transferred upon surrender of the relevant Security, with the endorsed form of transfer duly completed, at the specified office of the Registrar and the Transfer Agent, together with such evidence as the Registrar and the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Security may only be transferred in a whole Denomination.

(iii) Securityholders may not require transfers of the Securities to be registered during the period of 15 days ending on the due date for any payment in respect of the Securities.

(iv) All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Transfer Agent. A copy of the current regulations will be made available for inspection during usual business hours and upon reasonable notice at the registered office of the Trustee and at the specified office of each of the Paying Agents.

3. Status

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

(a) Condition to payment

Except in a winding-up or administration as provided in Condition 4, all payments in respect of or arising from (including any damages for breach of any obligations under) the Securities are, without prejudice to the right of the Issuer to cancel payments under Conditions 5(a) and 7, conditional upon the Issuer being solvent at the time of payment by the Issuer and no payment shall be due and payable in respect of or arising from the Securities except to the extent that the Issuer could make such payment and still be solvent immediately thereafter.

In these Conditions, the Issuer shall be considered to be "**solvent**" if both (x) it is able to pay its debts to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities. A certificate as to the solvency of the Issuer by two Directors or, if the Issuer is in winding-up or administration, its liquidator or administrator (as the case may be) shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Securityholders as correct and sufficient evidence thereof.

(b) Set-off, etc.

Subject to applicable law, no holder of the Securities may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the

Issuer arising under or in connection with the Securities and each holder of the Securities shall, by virtue of being the holder of any Security, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any holder of the Securities by the Issuer is discharged by set-off, such holder shall, unless such payment is prohibited by law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by 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 administrator, as appropriate of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and accordingly any such discharge shall be deemed not to have taken place.

The provisions of this Condition 3 apply only to principal and Distributions and any other amounts payable in respect of the Securities and nothing in these conditions 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.

4. Winding-up

If at any time prior to the date on which an Automatic Write Down occurs:

(A) an order is made or an effective resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up); or

(B) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend,

there shall be payable by the Issuer in respect of each Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Securityholder if, on the day prior to the commencement of such winding-up or administration and thereafter, such Securityholder were (in respect of such Security) the holder of one of a class of preference shares in the capital of the Issuer ("**Notional Preference Shares**") ranking *pari passu* as to a return of assets in such winding-up or administration with Other Additional Tier 1 Securities of the Issuer and with that class or classes of preference shares (if any) from time to time issued or which may be issued by the Issuer which have a preferential right to a return of assets in such winding-up or administration over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of the Issuer other than preference shares which, upon issue, qualified (or were intended to qualify) as Tier 2 Capital ("**Tier 2 Preference Shares**"), but ranking junior to the claims of Senior Creditors and holders of Tier 2 Preference Shares, on the assumption that the amount that such Securityholder was entitled to receive in respect of each such Notional Preference Share on a return of assets in such winding-up or administration were an amount equal to the principal amount of the relevant Security and any accrued but unpaid Distributions thereon (other than Distributions which have been cancelled pursuant to these Conditions).

5. Distributions

(a) Cancellation of Distributions

The Issuer shall cancel any Distribution Amount otherwise scheduled to be paid on a Distribution Payment Date to the extent that such Distribution Amount together with any Additional Amounts payable with respect thereto, when aggregated together with any distributions or payments on all other own funds instruments (excluding Tier 2 Capital instruments), paid, declared or required to be paid in the then current financial year of the Issuer exceeds the amount of the Issuer's Distributable Items.

Further, the Issuer may at any time elect, in its sole and full discretion, to cancel (in whole or in part) the Distribution Amount otherwise scheduled to be paid on any Distribution Payment Date.

If practicable, notice of any cancellation of payment of a scheduled Distribution Amount (in whole or in part) will be given to the Securityholders (in accordance with Condition 17), the Trustee, the Registrar and the Principal Paying Agent as soon as possible prior to the relevant Distribution Payment Date. However, any failure to provide such notice will not invalidate the cancellation of payment of a scheduled Distribution Amount or any part thereof, and non-payment of any Distribution Amount (in whole or in part) on any Distribution Payment Date shall constitute evidence that the Issuer has elected or is required to cancel payment of such Distribution Amount (or the relevant part thereof).

The cancellation of any Distribution Amount in accordance with this Condition 5(a) shall not constitute a default for any purpose (including, without limitation, Condition 11) on the part of the Issuer. For the avoidance of doubt, Distribution Amounts which are cancelled in accordance with this Condition 5(a) do not become due and are non-cumulative, and no Distribution Amount which has been cancelled (or any amount in lieu thereof) shall be payable in respect of the Securities thereafter, whether in a winding-up or administration of the Issuer or otherwise.

The Trustee shall have no responsibility for, or liability or obligations in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment or cancellation of Distributions or other amounts or any claims in respect thereof by reason of the application of this Condition 5.

(b) Distribution Payment Dates

The Securities bear interest ("**Distributions**") on their outstanding principal amount at the applicable Distribution Rate from (and including) the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 3, 5(a) and 7, Distributions shall be payable on the Securities in equal instalments quarterly in arrear on 24 March, 24 June, 24 September and 24 December in each year (each a "**Distribution Payment Date**"), except that the Distributions payable (subject as aforesaid) on the first Distribution Payment Date (being 24 June 2017) shall be in respect of the period from (and including) the Issue Date to (but excluding) 24 June 2017.

Distributions shall accrue from (and including) the Issue Date to (but excluding) the first Distribution Payment Date and thereafter from (and including) each Distribution Payment Date to (but excluding) the immediately following Distribution Payment Date.

(c) Accrual

Each Security will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, Distributions will, subject to Conditions 3(a), 5(a) and 7 continue to accrue until whichever is the earlier of:

(i) the date on which all amounts due in respect of such Security have been paid; and

(ii) the date on which the full amount of the moneys payable in respect of such Securities has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Securityholders in accordance with Condition 17.

Notwithstanding the foregoing, if an Automatic Write Down occurs pursuant to Condition 7:

(i) each Security will cease to bear interest from and including the time of such Automatic Write Down; and

(ii) any Distributions in respect of a Distribution Payment Date which falls on or after the date of such Automatic Write Down shall be deemed to have been cancelled upon the occurrence of such Automatic Write Down and shall not become due and payable.

Distributions in respect of any Security shall be calculated per £1,000 in principal amount thereof (the "**Calculation Amount**"). The amount of Distributions per Calculation Amount for any period shall be the amount equal to the product of the relevant Distribution Rate, the Calculation Amount and the Day Count Fraction, rounding the resulting figure to the nearest penny (half a penny being rounded upwards).

"**Day Count Fraction**" means, with respect to a payment of Distributions:

(i) in respect of the period from (and including) the Issue Date to (but excluding) the relevant payment date which falls on or before 24 June 2017 (the "**First Accrual Period**"), the number of days in the First Accrual Period divided by four times the number of days in the Determination Period beginning on 24 March 2017; and

(ii) thereafter, the number of days in the period from (and including) the most recent Distribution Payment Date to (but excluding) the relevant payment date (the "**Accrual Period**") divided by four times the number of days in the period from (and including) the most recent Distribution Payment Date to (but excluding) the next succeeding Distribution Payment Date.

For the purposes of this Condition 5(c):

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date; and

"**Determination Date**" means 24 March, 24 June, 24 September and 24 December in each year.

(d) Initial Distribution Rate and Distribution Amounts

The Distribution Rate for the period from, and including, the Issue Date to, but excluding, the First Reset Date is 6.75 per cent. per annum (the "**Initial Distribution Rate**").

The Distribution Amount which, subject to Conditions 3, 5(a) and 7, shall be payable on each Distribution Payment Date up to (and including) the First Reset Date will (if paid in full) be equal to £16.88 per Calculation Amount, except that the Distribution Amount which, subject as aforesaid, shall be payable on the first Distribution Payment Date will (if paid in full) be equal to £13.76 per Calculation Amount.

(e) Reset Distribution Rates

The Distribution Rate in respect of a Reset Period (each a "**Reset Distribution Rate**") shall be the aggregate of the Margin and the 5-year Mid-Swap Rate for such Reset Period, determined and converted from a semi-annual to a quarterly basis in a commercially reasonable manner by the Calculation Agent.

(f) Determination of Reset Distribution Rates and calculation of Distribution Amounts

The Calculation Agent will, as soon as practicable after 11.00 hours (London time) on each Reset Determination Date, determine the Reset Distribution Rate in respect of the Reset Period commencing on the Reset Date immediately following such Reset Determination Date, and shall calculate the amount of Distributions which (subject to Conditions 3, 5(a) and 7 and if paid in full) will be payable per Calculation Amount on each Distribution Payment Date falling in the period from (but excluding) such Reset Date to (and including) the next Reset Date.

(g) Publication of Reset Distribution Rates and Distribution Amounts

Unless the Securities are to be redeemed on the relevant Reset Date, the Calculation Agent shall cause notice of each Reset Distribution Rate and the related Distribution Amounts determined as aforesaid to be given to the Securityholders in accordance with Condition 17 and to the Trustee, the Registrar and the Principal Paying Agent as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(h) Calculation Agent

The Issuer may from time to time replace the Calculation Agent with another financial institution of international repute. If at any time from the Reset Determination Date, the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails to determine a Reset Distribution Rate or related Distribution Amounts or to effect the required publication thereof (in each case as required pursuant to these Conditions), the Issuer shall forthwith appoint another financial institution of international repute to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(i) Determination by the Trustee

The Trustee (or an agent appointed by the Trustee at the expense of the Issuer) shall be entitled but shall not be obliged, if the Calculation Agent fails at any time to perform its obligations to determine a Reset Distribution Rate in accordance with the above provisions, to determine the Reset Distribution Rate at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the determination shall be deemed to be a determination by the Calculation Agent.

(j) Determinations of Calculation Agent binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made (or deemed to be made) or obtained for the purposes of this Condition 5 by the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Trustee, the Principal Paying Agent, the Registrar and all Securityholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Trustee, the Securityholders or the Issuer shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6. Redemption and Purchase

(a) Redemption

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem or purchase the Securities in accordance with the following provisions of this Condition 6.

(b) Redemption at the option of the Issuer

Subject to (i) Condition 3(a), (ii) the Issuer having obtained Regulatory Approval and (iii) compliance with the Regulatory Preconditions, the Issuer may (having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 17, the Securityholders (which notice shall, subject as provided in Condition 6(h), be irrevocable and shall specify the date fixed for redemption)) redeem in accordance with these Conditions on the First Reset Date or on any Reset Date thereafter all, but not some only, of the Securities at their principal amount together with any unpaid Distributions accrued to (but excluding) the date of redemption (but excluding any Distributions which have been cancelled in accordance with these Conditions).

(c) Redemption at the option of the Issuer due to a Tax Event

If immediately prior to the giving of the notice referred to below:

(i) as a result of a Tax Law Change, in making any payments on the Securities, the Issuer will or would be required to pay Additional Amounts on the Securities;

(ii) as a result of a Tax Law Change (other than an Excluded Change):

(1) the Securities will or would no longer be treated as loan relationships for United Kingdom tax purposes;

(2) the Issuer will not or would not be entitled to claim a deduction in respect of any payments (other than the repayment of the principal amount of the Securities) in computing its taxation liabilities or the amount of the deduction would be materially reduced;

(3) the Issuer will not or would not, as a result of the Securities being in issue, be able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which the Issuer is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Securities or any similar system or systems having like effect as may from time to time exist);

(4) the Issuer will or would, in the future, have to bring into account a taxable credit, taxable profit or the receipt of taxable income if the principal amount of the Securities were written down, on a permanent or temporary basis, or the Securities were converted into ordinary shares in the capital of the Issuer, or

(5) the Securities or any part thereof will or would become treated as a derivative or an embedded derivative for United Kingdom tax purposes,

(each such event, a "**Tax Event**"), then the Issuer may, provided that in the case of each Tax Event, the consequences of the Tax Event cannot be avoided by the Issuer taking reasonable measures available to it, and subject to Condition 3(a), to the Issuer having obtained Regulatory Approval and to compliance with the Regulatory Preconditions and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 17, the Securityholders (which notice shall, subject as provided in Condition 6(h), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Securities at their principal amount, together with any unpaid Distributions accrued to (but excluding) the date of redemption in accordance with these Conditions (but excluding any Distributions which have been cancelled in accordance with these Conditions).

Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the relevant requirement or circumstance referred to in this Condition 6(c) applies and the consequences of the relevant Tax Event cannot be avoided by the Issuer taking reasonable measures available to it. Such certificate shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the holders of the Securities and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee is entitled to rely on such certificate without liability to any person.

(d) Redemption at the option of the Issuer due to Regulatory Capital Event

Subject to Condition 3(a), to the Issuer having obtained Regulatory Approval and to compliance with the Regulatory Preconditions, if a Regulatory Capital Event has occurred and is continuing, the Issuer may (having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 17, the Securityholders (which notice shall, subject as provided in Condition 6(h), be irrevocable)) redeem in accordance with these Conditions at any time all, but not some only, of the Securities at their principal amount, together with any unpaid Distributions accrued to (but excluding) the date of redemption in accordance with these Conditions (but excluding any Distribution which have been cancelled in accordance with these Conditions).

Prior to the publication of any notice of redemption pursuant to this Condition 6(d), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the relevant requirement or circumstance referred to in this Condition 6(d) applies. Such certificate shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the holders of the Securities and all other interested parties as correct, conclusive and sufficient evidence thereof and the Trustee is entitled to rely on such certificate without liability to any person.

(e) Purchases

Subject to the Issuer having obtained Regulatory Approval and to compliance with the Regulatory Preconditions, the Issuer or any Holding Company of the Issuer or any Subsidiary of the Issuer or of any such Holding Company may at any time purchase Securities in the open market or otherwise at any price.

Such Securities may, at the option of the Issuer or the relevant Holding Company or the relevant Subsidiary, be held, re-issued, re-sold or surrendered to the Principal Paying Agent for cancellation.

(f) Cancellation

All Securities purchased in accordance with Condition 6(e) above and surrendered for cancellation and all Securities redeemed by the Issuer shall be cancelled forthwith. Any Securities so cancelled may not be re-issued or re-sold and the obligations of the Issuer in respect of any such Securities shall be discharged.

(g) Trustee Not Obliged to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Securityholders for any loss arising from any failure by the Trustee to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance exists.

(h) Notices Final

Subject as follows, upon the expiry of any notice as is referred to in Condition 6(b), 6(c) or 6(d), the Issuer shall be bound to redeem the Securities in accordance with the terms of such Condition.

Notwithstanding the foregoing, if the Issuer has elected to redeem the Securities pursuant to Condition 6(b), 6(c) or 6(d) but the condition to payment referred to in Condition 3(a) is not (or would not if payment were made be) satisfied on the applicable redemption date, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, the Securities will not be redeemed on such date and no payment of the redemption amount will be due and payable. If any such redemption notice is rescinded, the Issuer shall promptly give notice to the Securityholders in accordance with Condition 17 and to the Trustee, the Registrar and the Principal Paying Agent.

If the Issuer has elected to redeem the Securities but, prior to the payment of the redemption amount with respect to such redemption, a Loss Absorption Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, the Securities will not be redeemed, no payment of the redemption amount will be due and payable and instead an Automatic Write Down shall occur as described in Condition 7.

7. Principal Loss Absorption

(a) Loss Absorption

If a Loss Absorption Event occurs at any time, the Issuer shall immediately notify the Regulator of the occurrence of the Loss Absorption Event and, on the Business Day following the determination by the Issuer that the Loss Absorption Event has occurred, an Automatic Write Down shall occur.

Effective upon, and following, the Automatic Write Down, Securityholders shall not have any rights against the Issuer with respect to:

(i) repayment of the principal amount of the Securities or any part thereof;

(ii) the payment of any Distributions for any period; or

(iii) any other amounts arising under or in connection with the Securities.

As a result of such Automatic Write Down, the full principal amount of the Securities and any accrued and unpaid Distributions shall be written down to zero and the Securities shall be cancelled.

(b) Notice of Write Down

Following the determination by the Issuer that a Loss Absorption Event has occurred, the Issuer shall immediately notify the Regulator and shall promptly give notice (which notice shall be irrevocable and shall specify that a Loss Absorption Event has occurred and the date on which the Automatic Write Down shall occur (or, if applicable, shall have occurred)) to the Securityholders in accordance with Condition 17 and to the Trustee, the Registrar and the Principal Paying Agent. Such notice to the Trustee shall be accompanied by a certificate signed by two Directors of the Issuer stating that the Loss Absorption Event has occurred and giving details thereof, and the Trustee shall rely on such certificate without liability to any person. Any failure by the Issuer to give any such notice will not in any way impact the effectiveness of the Automatic Write Down or give any Securityholder any rights as a result of such failure.

(c) Consequences of a Loss Absorption Event

Once the principal amount of a Security has been Written Down, it will not be restored in any circumstances, including where the Loss Absorption Event ceases to continue. For the avoidance of doubt, the principal amount of a Security shall not be reduced to below zero under any circumstances.

(d) Loss Absorption Event

A "**Loss Absorption Event**" shall occur if at any time the Common Equity Tier 1 Capital Ratio of the Group is less than 7 per cent.

Whether a Loss Absorption Event has occurred at any time shall be determined by the Issuer and such determination shall be binding on the Trustee and the Securityholders. The Trustee shall have no responsibility for, or liability or obligations in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment, cancellation or write-down of principal, Distributions or other amounts or any claims in respect thereof by reason of the occurrence of a Loss Absorption Event. For the avoidance of doubt, notwithstanding the occurrence of a Loss Absorption Event, nothing in these conditions 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.

8. Payments

(a) Method of Payment

Payments of principal in respect of each Security (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Security at the specified office of the Registrar and Transfer Agent or any of the Paying Agents. Payments of Distributions and principal will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Security appearing in the register of holders of the Securities maintained by the Registrar and the Transfer Agent (the "**Register**"):

(i) where the Securities are represented by a Global Security, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg, as applicable, are open for business) before the relevant due date; and

(ii) where the Securities are in definitive form, at the close of business on the fifteenth (15th) Business Day before the relevant due date.

For these purposes, "**Designated Account**" means the account maintained by a holder with a bank which processes payments in pounds sterling, the details of which are set out in the Register at close of business on the relevant date as aforesaid. No commissions or expenses shall be charged to such holders by the Issuer, the Registrar, the Paying Agents or the Transfer Agent in respect of any payments of principal or Distributions in respect of the Securities.

The holder of a Global Security shall be the only person entitled to receive payments in respect of Securities from the Issuer while such Securities are represented by such Global Security and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Security in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Securities represented by such Global Security must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Security.

(b) Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in any jurisdiction, but without prejudice to the provisions of Condition 9. For the purposes of the preceding sentence, the phrase "fiscal or other laws, regulations and directives" shall include any obligation of the Issuer to withhold or deduct from a payment pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder or official interpretations thereof or any law implementing an intergovernmental approach thereto.

(c) Appointment of Agents

The initial Agents are initially appointed by the Issuer. Subject as provided in the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Securityholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any or all of the Agents and to appoint additional or other Agents, provided that the Issuer shall at all times maintain:

(i) a Principal Paying Agent, a Registrar and (at all times when a Calculation Agent is required to perform any calculation or determination under these Conditions) a Calculation Agent;

(ii) a Paying Agent having its specified office outside the United Kingdom; and

(iii) a Paying Agent in any other jurisdiction as may be required by the rules and regulations of any stock exchange or market on which the Securities are for the time being listed, quoted and/or admitted to trading.

Notice of any such change or any change of any specified office shall promptly be given to the Securityholders in accordance with Condition 17.

(d) Non-Payment Days

If any date for payment in respect of any Security is not a Payment Day, the holder shall not be entitled to payment until the next following Payment Day nor to any additional Distributions or other sum in respect of such postponed payment. In these Conditions, "**Payment Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business:

(i) in London; and

(ii) where presentation of a Definitive Security is required for payment as required, in the place where such Security is presented for payment.

(e) Partial Payments

If the amount of principal or a Distribution which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or Distribution in fact paid.

9. Taxation

(a) Payment without withholding

All payments of principal and Distributions in respect of the Securities by the Issuer will be made without withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the UK, or any political subdivision of the same or authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, in respect of the payment of any Distributions on (but not, for the avoidance of doubt, in respect of any principal of) the Securities, the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts receivable by the holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of such Distributions on their Securities in the absence of any requirement to make such withholding or deduction, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Security:

(i) where presentation is required, presented for payment by, or by a third party on behalf of, a holder who in any case (a) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of nonresidence or other similar claim for exemption to the relevant tax authority but fails to do so, or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Security by reason of his having some connection with the UK other than the mere holding of such Security; or

(ii) where presentation is required, where such Security is presented for payment in the UK; or

(iii) where presentation is required, presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such period of 30 days, assuming that day had been a Payment Day if that day was not in fact a Payment Day.

The "**Relevant Date**" means the date on which the payment in respect of the Security first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "**Relevant Date**" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Securityholders in accordance with Condition 17.

As provided in Condition 8(b), all payments in respect of the Securities will be made subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto, and the Issuer shall not be required to pay any Additional Amounts under this Condition on account of any such deduction or withholding described in this paragraph.

(b) Additional Amounts

Any reference in these Conditions to any Distributions in respect of the Securities shall be deemed also to include any Additional Amounts which may be payable under this Condition 9.

10. Prescription

The Securities will become void unless claims in respect of principal and/or Distributions are made within a period of 10 years in the case of principal and five years in the case of Distributions from the Relevant Date (as defined in Condition 9) relating hereto. The Issuer shall be discharged from its obligation to pay principal on a Security to the extent that the relevant Security certificate has not been surrendered to the Registrar and Transfer Agent by the end of the period of 10 years from the Relevant Date in respect of such payment.

11. Non-payment and Enforcement

(a) Rights to institute and/or prove in a winding-up

Notwithstanding any of the provisions below in this Condition 11, the right to institute winding-up proceedings is limited to circumstances where payment of principal has become due and is not duly paid.

If default is made for a period of seven days or more in the payment of any principal due in respect of the Securities or any of them, the Trustee in its discretion may, and if so requested by Securityholders of at least one quarter in principal amount of the Securities then outstanding (as defined in the Trust Deed) or if so directed by an Extraordinary Resolution, shall (subject in each case to Condition 11(c)) institute proceedings for the winding-up of the Issuer but (subject to the following paragraph) may take no further or other action to enforce, prove or claim for any such payment.

If at any time prior to the date on which an Automatic Write Down occurs, a winding-up (whether or not instituted by the Trustee as aforesaid and other than an Approved Winding-up) or administration of the Issuer shall occur where the administrator has given notice that it intends to declare and distribute a dividend, the Trustee in its discretion may, and if so requested by Securityholders of at least one quarter in principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution, shall (subject in each case to Condition 11(c)) prove in such winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer in respect of the Securities, such claim being as provided in Condition 4.

No payment in respect of the Securities or the Trust Deed may be made by the Issuer pursuant to this Condition 11(a) nor will the Trustee accept the same (provided it has notice or actual knowledge of the relevant circumstances) otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend.

(b) Enforcement

Without prejudice to Condition 11(a), the Trustee may at its discretion and without further notice institute such proceedings and/or take such other action against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed, these Conditions and the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed including, without limitation, payment of any principal or Distributions in respect of the Securities and 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 and/or the taking of such other action, be obliged to pay any sum or sums (in cash or otherwise) sooner than the same would otherwise have been payable by it. Nothing in this Condition 11(b) shall, subject to Condition 11(a), prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of the Securities or the Trust Deed.

(c) Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 11(a) or Condition 11(b) above to enforce the obligations of the Issuer under the Trust Deed or the Securities or to take any other action under or pursuant to these Conditions or the Trust Deed unless (i) it shall have been so directed by an Extraordinary Resolution of the Securityholders or so requested in writing by the holders of at least one quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all costs, charges, liabilities and expenses which may be incurred by it in connection with such action, including the costs of its management's time and/or other internal resources, calculated in accordance with its normal hourly rates in force from time to time.

(d) Right of Securityholders

No Securityholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in liquidation, fails to do so within a reasonable period and such failure is then continuing, in which case the Securityholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 11.

(e) Extent of Securityholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 11, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities or under the Trust Deed.

The provisions of this Condition 11 apply only to principal and Distributions and any other amounts payable in respect of the Securities and nothing in these Conditions 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.

12. Meetings of Securityholders, Modification, Waiver and Substitution

(a) Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Securityholders holding not less than 10 per cent. in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons holding or representing Securityholders whatever the principal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of optional redemption of the Securities or any date for payment of Distributions on the Securities, (ii) to reduce or cancel the principal amount of the Securities, (iii) to reduce the rate or rates of Distribution in respect of the Securities or to vary the method or basis of calculating the rate or rates or amount of Distributions or the basis for calculating any Distribution amount in respect of the Securities, (iv) to vary the currency or currencies of payment or denomination of the Securities, (v) to increase the Common Equity Tier 1 Capital Ratio at which a Loss Absorption Event occurs, (vi) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (vii) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass an Extraordinary Resolution, or (viii) to modify Condition 3. In each such case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one third, in principal amount of the Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Securityholders (whether or not they were present at the meeting at which such resolution was passed, and whether or not voting on such Extraordinary Resolution).

In addition, a resolution in writing or consent given by way of electronic consents through the relevant clearing systems (in a form satisfactory to the Trustee) signed or provided (as applicable) by or on behalf of the holders of at least 75 per cent. in aggregate principal amount outstanding of the Securities who for the time being are entitled to receive notice of a meeting of Securityholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. A resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

(b) Modification of the Trust Deed or the Agency Agreement

The Trustee may agree, without the consent of the Securityholders, to (i) any modification of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Securityholders.

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

(c) Consent from the Regulator

No modification to these Conditions or any other provisions of the Trust Deed nor any substitution of the Issuer shall become effective unless the Issuer shall have received the consent of the Regulator (unless such consent is not then required under the Capital Rules) and, prior to effecting any such modification, the Issuer shall confirm to the Trustee whether or not such consent has been received.

(d) Substitution

The Trustee may from time to time, without the consent of the Securityholders, agree with the Issuer (or any previous Substitute Issuer) to the substitution on a subordinated basis equivalent to that referred to in Condition 3 of a Subsidiary or successor in business of the Issuer, a Holding Company of the Issuer or another Subsidiary of such Holding Company (the "**Substitute Issuer**") in place of the Issuer (or of any previous Substitute Issuer) as a new principal debtor under these presents provided that:

(i) a trust deed is executed or some other form of undertaking is given by the Substitute Issuer in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Issuer had been named in the Trust Deed and on the Securities, as the principal debtor in place of the Issuer (or of any previous Substitute Issuer);

(ii) the directors of the Substitute Issuer or other officers acceptable to the Trustee certify that the Substitute Issuer is solvent at the time at which the said substitution is proposed to be effected and will remain solvent immediately after such substitution is effected (and the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Issuer or to compare the same with those of the Issuer);

(iii) (without prejudice to the rights of reliance of the Trustee under sub-paragraph (ii) above) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Securityholders;

(iv) (without prejudice to the generality of sub-paragraph (i) hereof) the Trustee may in the event of such substitution agree, without the consent of the Securityholders, to a change in the law governing the Trust Deed and/or the Securities, provided that such change is not in the opinion of the Trustee materially prejudicial to the interests of the Securityholders; and

(v) if the Substitute Issuer is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than or in addition to the territory or any such authority to the taxing jurisdiction of which the Issuer is subject generally (the "**Issuer's Territory**"), the Substitute Issuer will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for or as the case may be, in addition to, the references in that Condition and in Condition 6(c) (and, in each case, the relevant defined terms used therein) to the Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, these Conditions and the Securities will be read accordingly.

Any such trust deed or undertaking shall, if so expressed, operate to release the Issuer or any previous Substitute Issuer (as the case may be) as aforesaid from all of its obligations as principal debtor under the Trust Deed. Not later than 14 days after the execution of such documents and compliance with such requirements, the Substitute

Issuer shall give notice thereof in a form previously approved by the Trustee to the Securityholders in the manner provided in Condition 17. Upon the execution of such documents and compliance with such requirements, the Substitute Issuer shall be deemed to be named in the Trust Deed as the principal debtor in place of the Issuer (or in place of the previous substitute) under the Trust Deed and the Trust Deed shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the Trust Deed to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to any Substitute Issuer.

13. Entitlement of the Trustee

In connection with any exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in Condition 12), the Trustee shall have regard to the general interests of the Securityholders as a class and in particular, but without limitation, the Trustee shall not have regard to the consequences of such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise as aforesaid, no Securityholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Securityholders except to the extent already provided in Condition 9 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

14. Indemnification of the Trustee and contracting with the Issuer

The Trust Deed contains provisions for the provision of indemnification, security and prefunding to the Trustee and for its relief from responsibility towards the Issuer and the Securityholders, including (i) provisions relieving it from taking any action unless indemnified, secured or prefunded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Securityholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trustee is entitled, inter alia, (i) to enter into business transactions with the Issuer and any entity related to the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer or any entity related to the Issuer, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to Securityholders on a report, confirmation or certificate or opinion or any advice of any accountants, financial advisers, financial institution or 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, opinion, confirmation or certificate or advice and such report, opinion, confirmation, or certificate or advice shall be binding on the Issuer, the Trustee and the Securityholders.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

15. Replacement of Securities

If a Security is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent or such other Paying Agent as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Securityholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Security is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Security) and otherwise as the Issuer may reasonably require. Mutilated or defaced Securities must be surrendered before replacements will be issued.

16. Further Issues

The Issuer may from time to time without the consent of the Securityholders create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects save for the issue price and the date of issue thereof, and the amount and date of the first payment of Distributions thereon) and so that the same shall be consolidated and form a single series with the outstanding Securities; provided, however, that if such further securities are not fungible with the outstanding Securities for U.S. federal income tax purposes, the further securities will have a separate Common Code and ISIN (where applicable) from such numbers assigned to the previously issued Securities. References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Securities. Any further securities forming a single series with the Securities shall be constituted by the Trust Deed or a deed supplemental to it.

17. Notices

All notices to the Securityholders will be valid if mailed to them by first class mail or (if posted to an address overseas) by airmail to the Securityholders (or the first of any joint named Securityholders) at their respective addresses in the Register.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any such notice will be deemed to have been given on the second day after being so mailed or on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

19. Definitions

As used herein:

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

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

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

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

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

(ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and

(iii) has a floating leg based on 6-month pounds sterling LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

"**Accrual Period**" has the meaning given to it in Condition 5(c);

"**Additional Amounts**" has the meaning given to it in Condition 9;

"**Additional Tier 1 Capital**" has the meaning given to it in the Capital Rules;

"**Approved Winding-up**" means a solvent winding-up of the Issuer solely for the purposes of a merger, reconstruction, reorganisation or amalgamation, the terms of which merger, reconstruction, reorganisation or amalgamation (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Securityholders and (ii) do not provide that the Securities shall thereby become repayable;

"**Assets**" means the non-consolidated gross assets of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent contingencies and events in such manner as the Directors or, if the Issuer is in winding-up or administration, its liquidator or administrator (as the case may be) may determine;

"**Automatic Write Down**" means the irrevocable and automatic (without the need for the consent of Securityholders) write-down of the full principal amount of the Securities to zero and the cancellation of all accrued and unpaid Distributions and the cancellation of the Securities on the Business Day immediately following the determination by the Issuer that a Loss Absorption Event has occurred, (such write down being referred to as a **Write Down**, and **Written Down** being construed accordingly);

"**Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London;

"**Calculation Agent**" means the Principal Paying Agent or a financial institution appointed by the Issuer from time to time to the role of calculation agent in respect of the Securities;

"**Calculation Amount**" has the meaning given to it in Condition 5(c);

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

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

"**Capital Rules**" means at any time the regulations, requirements, guidelines and policies relating to capital resources requirements or capital adequacy then in effect and applicable to the Group (including, as at the Issue Date, without limitation, CRD IV and any regulations, requirements, guidelines and policies of the Regulator as may from time to time be applicable to the Group);

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Code**" means the U.S. Internal Revenue Code of 1986;

"**Common Equity Tier 1**" or "**CET1**" means, at any time, the sum, expressed in pounds sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Group as at such time, less any deductions from Common Equity Tier 1 Capital required to be made as at such time, in each case as calculated by the Issuer on a consolidated basis in accordance with the then prevailing Capital Rules but without taking into account any transitional, phasing in or similar provisions;

"**Common Equity Tier 1 Capital**" has the meaning given to it, or any successor term, in the Capital Rules;

"**Common Equity Tier 1 Capital Ratio**" means, with respect to the Group, at any time, the ratio of Common Equity Tier 1 of the Group as at such time to the Risk Weighted Assets of the Group at the same time, expressed as a percentage;

"**CRD IV**" means (i) the Capital Requirements Directive (ii) the Capital Requirements Regulation and (iii) any legislation or regulatory technical standards made under or pursuant to powers conferred by (i) or (ii);

"**Definitive Securities**" has the meaning given to it in Condition 1(a)(iv);

"**Denomination**" has the meaning given to it in Condition 1(a)(i);

"**Designated Account**" has the meaning given to it in Condition 8(a);

"**Directors**" means directors of the Issuer;

"**Distributable Items**" means, with respect to any Distribution Payment Date and subject as otherwise defined in the Capital Rules:

(i) the amount of the profits of the Issuer as at the end of its financial year immediately preceding such Distribution Payment Date plus any profits brought forward and reserves available for that purpose before distributions to holders of the Issuer's own funds instruments; less

(ii) any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the Issuer's articles of association and sums placed to non-distributable reserves in accordance with the Companies Act 2006 or the articles of association of the Issuer;

calculated on the basis of the non-consolidated accounts of the Issuer;

"**Distribution Amount**" means, with respect to a Distribution Payment Date, the amount of Distributions payable on each Security on such Distribution Payment Date;

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of the Securities;

"**Distribution Payment Date**" has the meaning given to it in Condition 5(b);

"**Distribution Rate**" means the Initial Distribution Rate or the relevant Reset Distribution Rate, as the case may be;

"**Distributions**" has the meaning given to it in Condition 5(b);

"**Euroclear**" means Euroclear Bank S.A./N.V.;

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended;

"**Excluded Change** means the enactment of legislation substantially in the form of the draft legislation relating to the restriction of relief for interest expenses set out in Schedule 10 of the Finance (No.2) Bill 2017 published on 20 March 2017;

"**Extraordinary Resolution**" has the meaning given to it in the Trust Deed;

"**First Reset Date**" means 24 June 2024;

"**Global Security**" means the security certificate representing the Securities while in global form;

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

"**Holding Company**" means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary;

"**Initial Distribution Rate**" has the meaning given to it in Condition 5(d);

"**Issue Date**" means 10 April 2017;

"**Liabilities**" means the non-consolidated gross liabilities of the Issuer, as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors or, if the Issuer is in winding-up or administration, its liquidator or administrator (as the case may be) may determine;

"**Loss Absorption Event**" has the meaning given to it in Condition 7(d);

"**Margin**" means 5.792 per cent. per annum;

"**Notional Preference Share**" has the meaning given to it in Condition 4;

"**Other Additional Tier 1 Securities**" means any securities of the Issuer (i) which upon issue qualified (or were intended to qualify) as Additional Tier 1 capital (and shall include, for so long as any of the same shall remain outstanding, the £500,000,000 Perpetual Capital Securities issued by the Issuer on 24 June 2014, the £300,000,000 Perpetual Capital Securities issued by the Issuer on 2 December 2014 and the £750,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities issued by the Issuer on 10 June 2015) or (ii) which otherwise rank or are expressed to rank on a winding-up or in respect of a distribution or payment of dividends or any other payments thereon *pari passu* with the Securities or with other instruments falling within (i) above;

"**own funds instruments**" has the meaning given to it in the Capital Rules;

"**Payment Day**" has the meaning given to it in Condition 8(d);

"**Regulation S**" means Regulation S under the U.S. Securities Act;

"**Register**" has the meaning given to it in Condition 8(a);

"**Regulator**" means the Prudential Regulation Authority of the UK or such successor or other authority having primary responsibility for the prudential supervision of the Issuer and the Group;

"**Regulatory Approval**" means, at any time, such approval, consent or prior permission by, or notification required within prescribed periods to, the Regulator, or such waiver of the then prevailing Capital Rules from the Regulator, as is required under the then prevailing Capital Rules at such time;

a "**Regulatory Capital Event**" will occur if there is a change in the regulatory classification of the Securities occurring after the Issue Date that does, or will, result in the Securities being fully or partially excluded from the Tier 1 Capital of the Group;

"**Regulatory Preconditions**" means:

(a) if, at the time of such redemption or repurchase, the prevailing Capital Rules permit the redemption or repurchase after compliance with any pre-conditions, the Issuer having complied with such pre-conditions; and

(b) in the case of a redemption pursuant to Conditions 6(c) or 6(d) occurring prior to the First Reset Date only,

    (i) the Regulator being satisfied (such satisfaction to be evidenced by the granting of Regulatory Approval) that the Issuer has demonstrated to the satisfaction of the Regulator that the circumstance that entitles the Issuer to exercise its right of redemption was not reasonably foreseeable, judged at the Issue Date and is (in the case of a redemption pursuant to Condition 6(d)) sufficiently certain or (in the case of a redemption pursuant to Condition 6(c)) material; or

    (ii) if, at the time of such redemption, the prevailing Capital Rules permit the redemption after compliance with an alternative pre-condition, the Issuer having complied with such other pre-condition;

"**Relevant Account Holder**" means each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than (i) Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear, and (ii) Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) as the holder of a particular principal amount of such Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg shall be conclusive and binding for all purposes);

"**Relevant Date**" has the meaning given to it in Condition 9;

"**Reset Date**" means the First Reset Date and each fifth anniversary thereof;

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

"**Reset Distribution Rate**" has the meaning given in Condition 5(e);

"**Reset Period**" means each period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date thereafter and "**relevant Reset Period**" shall be construed accordingly;

"**Reset Reference Bank Rate**" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Calculation Agent at approximately 11:00 a.m. (London time) on such Reset Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provide, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provide, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.856 per cent.;

"**Reset Reference Banks**" means five leading swap dealers in the interbank market selected by the Calculation Agent (excluding the Calculation Agent or any of its affiliates) in its discretion after consultation with the Issuer;

"**Risk Weighted Assets**" means, as at any time, the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Group as at such time, as calculated by the Issuer on a consolidated basis in accordance with the then prevailing Capital Rules but without taking into account any transitional, phasing in or similar provisions, and where the term "risk weighted assets" means the risk weighted assets or total risk exposure amount, as calculated by the Issuer in accordance with the then prevailing Capital Rules;

"**Screen Page**" means Reuters screen "ICESWAP4" or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid Swap Rate;

“**Securityholder**” or “**holder**” has the meaning given to it in the Trust Deed;

“**Senior Creditors**” means creditors of the Issuer (a) who are unsubordinated creditors of the Issuer; (b) whose claims are, or are expressed to be, subordinated (whether only in the event of a winding-up or administration of the Issuer or otherwise) to the claims of unsubordinated creditors of the Issuer but not further or otherwise; or (c) who are subordinated creditors of the Issuer other than those whose claims are, or are expressed to rank, *pari passu* with, or junior to, the claims of the Securityholders (with Senior Creditors including, for the avoidance of doubt, holders of Tier 2 Capital instruments);

“**Subsidiary**” has the meaning given to it under Section 1159 of the Companies Act 2006 (as amended from time to time);

“**Substitute Issuer**” has the meaning given to it in Condition 12(d);

“**successor in business**” has the meaning given to it in the Trust Deed;

“**Tax Event**” has the meaning given to it in Condition 6(c);

“**Tax Law Change**” means a change in, or amendment to, the laws or regulations of the UK or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the UK 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 (in respect of securities similar to the Securities and which are capable of constituting Additional Tier 1 Capital) or which differs from any specific written confirmation given by a tax authority in respect of the Securities, which change or amendment becomes effective or, in the case of a change in law, if such change is enacted by a UK Act of Parliament or by Statutory Instrument, on or after the Issue Date;

“**Tier 1 Capital**” has the meaning given to it in the Capital Rules;

“**Tier 2 Capital**” has the meaning given to it in the Capital Rules;

“**Tier 2 Preference Shares**” has the meaning given to this term in Condition 4;

“**Transfer Certificate**” has the meaning given to it in Condition 2(b)(i);

“**UK**” means the United Kingdom of Great Britain and Northern Ireland;

“**U.S.**” means the United States of America;

“**U.S. Securities Act**” means the U.S. Securities Act of 1933, as amended; and

“**£**” or “**pounds sterling**” means the lawful currency of the United Kingdom from time to time.

20. Governing law

The Trust Deed, these Conditions and the Securities and any non-contractual obligations arising out of or in connection with the Trust Deed, these Conditions or the Securities are governed by, and shall be construed in accordance with, English law.

Overview of the Securities while in Global Form

*Words and expressions defined in the "Terms and Conditions of the Securities" above or elsewhere in this Offering Memorandum have the same meanings in this section. The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System.*

The Securities will be in registered form in the denominations of £200,000 and integral multiples of £1,000 in excess thereof. The Securities will initially be represented by the global security (the "**Global Security**"), deposited with, and registered in the name of a nominee for, a common depositary of Euroclear and Clearstream, Luxembourg.

Investors may hold their interests in the Global Security directly through the Clearing Systems if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

None of the Clearing Systems is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

Ownership of interests in the Global Security (the "**Book-Entry Interests**") will be limited to Direct Participants. The Book-Entry Interests in the Global Security will be issued only in denominations of £200,000 and integral multiples of £1,000 in excess thereof.

The Book-Entry Interests will not be evidenced other than by entry in the records of the relevant Clearing System. The Clearing Systems will credit on their book-entry registration and transfer systems a Direct Participant's account with the interest beneficially owned by such Direct Participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Securities are in global form, owners of any interest in the Global Security will not have the Securities registered in their names, will not receive physical delivery of the Securities in certificated form other than in the circumstances described below.

Issuance of Definitive Securities

Under the terms of the Global Security, the Global Security will only be exchanged for definitive Securities in registered form (the "**Definitive Securities**") if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, and no alternative clearing system satisfactory to the Trustee and the Issuer is available, in which case a Securityholder may give notice to the Registrar and the Transfer Agent to exchange the Global Security for Definitive Securities.

In such an event, the Registrar will issue and deliver Definitive Securities, registered in the relevant name or names and issued in any approved denominations, requested by or on behalf of the relevant Clearing System or the Issuer, as applicable (in accordance with its customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Securities will bear the applicable restrictive legend set forth in "*Subscription and Sale*".

Redemption of the Global Security

In the event the Global Security, or any portion thereof, is redeemed, the relevant Clearing System will distribute the amount received by it in respect of the Global Security so redeemed to the holders of the Book-Entry Interests in the Global Security from the amount received by it in respect of the redemption of the Global Security. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by the relevant Clearing System in connection with the redemption of the Global Security (or any portion thereof). The Issuer understands that under existing practices of the relevant Clearing System if fewer than all of the Securities are to be redeemed at any time, the relevant Clearing System will credit their respective Direct Participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate.

Payments on the Global Security

Payments of amounts owing in respect of the Global Security (including principal, Distributions and Additional Amounts) will be made by the Issuer to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to the relevant Clearing System or their nominee, which will distribute such payments to Direct Participants in accordance with their respective procedures. Payment of any amounts due and payable under or in respect of the Securities by or on behalf of the Issuer to or to the order of the nominee (as registered holder) for the Clearing Systems will discharge the Issuer's obligations in respect of such payment *pro tanto*, and owners of Book-Entry Interests in the Securities must look to the Clearing Systems or, as the case may be, the Participant(s) through which they hold their Book-Entry Interests, for their share of any payment so made.

Under the terms of the Trust Deed, the Issuer, the Trustee and the Paying Agents will treat the registered holder of the Global Security as the owner thereof for the purpose of receiving payments. Consequently, none of the Issuer, the Trustee, the Paying Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of the Clearing Systems or any Participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by the Clearing Systems or any Participant, or for maintaining, supervising or reviewing the records of the Clearing Systems or any Participant relating to, or payments made on account of, a Book-Entry Interest; or

- payments made by the Clearing Systems or any Participant, or for maintaining, supervising or reviewing the records of the Clearing Systems or any Participant relating to or payments made on account of a Book-Entry Interest; or

- the Clearing Systems or any Participant.

Payments by Indirect Participants to owners of Book-Entry Interests held through Direct Participants are the responsibility of such Participants.

The principal of, Distributions on, and all other amounts payable in respect of, the Global Security will be paid in pounds sterling.

Euroclear and Clearstream, Luxembourg

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, Luxembourg, as applicable.

The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. The Issuer is not responsible for those operations or procedures.

Euroclear and Clearstream, Luxembourg hold securities for participating organisations. They facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream, Luxembourg provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream, Luxembourg participant, either directly or indirectly.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of the Clearing Systems as the holder of a Book-Entry Interest in the Securities evidenced by the Global Security must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by or on behalf of the Issuer to or to the order of the registered holder of the Global Security (being the nominee for the common depositary of the Clearing Systems) and in relation to all other rights arising under the Global Security, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Securities evidenced by the Global Security, the common depositary by whom such Security is held, or nominee in whose name it is registered, will immediately credit the relevant Direct Participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Security as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Security held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Such persons shall have no claim directly against the Issuer in respect of payments due on the Securities for so long as the Securities are evidenced by the Global Security and the obligations of the Issuer will be discharged by payment to the registered holder of the Global Security in respect of each amount so paid. None of the Issuer, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Security, or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Securities

Subject to the rules and procedures of each applicable Clearing System, purchases of Securities held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Securities on the Clearing System's records. The ownership interest of each actual purchaser of each such Security (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Securities held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Securities, unless and until interests in any Global Security held within a Clearing System are exchanged for Definitive Securities.

No Clearing System has knowledge of the actual Beneficial Owners of the Securities held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Global Clearance and Settlement under the Book-Entry System

Investors will only be able to make and receive deliveries, payments and other communications involving Securities through the Clearing Systems on days when those systems are open for business.

Although the Clearing Systems currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Security among participants in the Clearing Systems, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee or the Paying Agents will have any responsibility for the performance by the Clearing Systems or their respective Participants, of their respective obligations under the rules and procedures governing their operations.

Secondary Market Trading

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of Book-Entry Interests in Securities held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Calculation of Distributions

Notwithstanding Condition 5(c), for so long as all of the Securities are represented by the Global Security, the amount of Distributions payable (subject to cancellation as provided in the Conditions) on each Distribution Payment Date will be calculated by reference to the aggregate outstanding principal amount of Securities represented by the Global Security and not per Calculation Amount.

Automatic Write Down

In the event of an Automatic Write Down following a Loss Absorption Event, the principal amount of each Global Security will be written down to zero and cancelled. All Book-Entry Interests in the Clearing Systems representing interests in the Global Security will also be cancelled in full in accordance with the procedures of the relevant Clearing System and will not be restored in any circumstances thereafter.

Notices

For so long as all of the Securities are represented by the Global Security and the Global Security is registered in the name of a nominee for the common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Securityholders may be given, in substitution for delivery as required by Condition 17, by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by such Clearing Systems to the relevant Participants. Such notice shall be deemed to have been given on the date of delivery of the notice to Euroclear and/or Clearstream, Luxembourg (as applicable) for such communication.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed or admitted to trading.

Prescription

Claims in respect of principal of and/or Distributions in respect of the Global Security will become void unless made within a period of 10 years in the case of principal and five years in the case of Distributions from the Relevant Date (as defined in Condition 9) relating thereto.

Clearing Systems

References herein to Euroclear and/or Clearstream, Luxembourg and/or the Clearing Systems shall be deemed to include references to any other clearing system in which the Securities are, for the time being and with the approval of the Trustee, traded or cleared.

Business Description

DESCRIPTION OF THE ISSUER AND THE GROUP

Background

The Issuer is a public limited company incorporated and registered in England and Wales under the Companies Act 2006. It was incorporated on 23 September 2013 as a private limited company with registered number 08700698 with the name Nuevo Topco Limited. On 16 December 2013, the Issuer changed its name to Santander UK Group Limited. On 22 January 2014, the Issuer changed its name to Santander UK Group Holdings Limited. On 25 March 2015, the Issuer re-registered as a public limited company. On 10 January 2014, the Issuer became the holding company of Santander UK plc following its acquisition of Santander UK plc from Banco Santander, S.A. and Santusa Holdings S.L.

The principal executive office and registered office of the Issuer is at 2 Triton Square, Regent's Place, London, NW1 3AN. The telephone number of the Issuer is +44 (0)800 389 7000.

The Issuer's principal operating subsidiary is Santander UK plc. Santander UK plc was originally formed as a building society in 1944 under the name Abbey National Building Society and is now a public limited liability company incorporated and registered in England and Wales under the Companies Act 1985. It was incorporated on 12 September 1988 with registered number 2294747.

The Issuer and Santander UK plc operate on the basis of a unified business strategy and have common boards, albeit the principal business activities of the Group are carried on by Santander UK plc and its subsidiaries.

The Issuer is a subsidiary of Banco Santander, S.A. and Santusa Holding, S.L.

Corporate Purpose

The Group's purpose is to help people and businesses prosper.

Business and Support Divisions

The Group, headed by Nathan Bostock, Chief Executive Officer, operates four business divisions as follows:

Retail Banking

Retail Banking offers a wide range of products and financial services to individuals and small businesses through a network of branches and ATMs, as well as through telephony, digital, mobile and intermediary channels. Retail Banking also serves business customers with an annual turnover of up to £6.5m via business banking as well as Santander Consumer Finance, predominantly a vehicle finance business. The Group's main products are residential mortgage loans, savings and current accounts, credit cards and personal loans as well as insurance policies.

Commercial Banking

Commercial Banking offers a wide range of products and financial services to customers through a network of regional Corporate Business Centres ("**CBCs**") and through telephony and digital channels. The management of Group's customers is organised across two relationship teams – the Regional Corporate Bank (RCB) that covers trading businesses with annual turnover from £6.5m to £500m and Specialist Sector Groups (SSG) that cover real estate, housing finance, education, healthcare, and hotels. Commercial Banking products and services include loans, bank accounts, deposits, treasury services, invoice discounting, cash transmission, trade finance and asset finance.

Global Corporate Banking

Global Corporate Banking services corporate clients with a turnover of £500m and above per annum, and financial institutions, as well as supporting the rest of Santander UK plc’s business segments. Global Corporate Banking clients require specially-tailored solutions and value-added services due to their size, complexity and sophistication. Global Corporate Banking provides these clients with products to manage currency fluctuations, protect against interest rate risk, and arrange capital markets finance and specialist trade finance solutions.

Corporate Centre

Corporate Centre predominantly consists of the non-core corporate and treasury legacy portfolios. Corporate Centre is also responsible for managing capital and funding, balance sheet composition and structure and strategic liquidity risk. The non-core corporate and treasury legacy portfolios include aviation, shipping, infrastructure, commercial mortgages, Social Housing loans and structured credit assets, all of which are being run-down and/or managed for value.

Directors of the Issuer

The following table sets forth the directors of Santander UK Group Holdings plc.

Position	*Name*	*Other principal activities*
Chairman	Baroness Shriti Vadera	Non-executive Chair of Santander UK plc Senior Independent Director of BHP Billiton plc Non-Executive Director of AstraZeneca plc
Deputy Chairman and Non-Executive Director	Juan Rodríguez Inciarte	Non-Executive Director of Santander UK plc Director SAM Investment Holdings Limited Director Santander Consumer Finance SA Director Vista Capital de Expansion SA Chairman Saarema Inversiones SA
Executive Director and Chief Executive Officer	Nathan Bostock	Chief Executive Officer of Santander UK plc Director of Santander Fintech Limited Member of the PRA Practitioner Panel Member of the Financial Services Trade and Investment Board (FSTIB) Director of SAM Investment Holdings Limited
Banco Santander nominated Non-Executive Director	Ana Botín	Non-Executive Director of Santander UK plc Executive Chair of Banco Santander SA Non-Executive Director of The Coca-Cola Company Vice-Chair of the World Business Council for Sustainable Development Chair of Portal Universia SA Chair of Universia Holding SL Board Member of Institute of International Finance
Banco Santander nominated Non-Executive Director	Bruce Carnegie-Brown	Non-Executive Director of Santander UK plc Vice Chair and Lead Independent Director of Banco Santander SA

		Chair of Moneysupermarket.com Director of Jardine Lloyd Thompson Group plc
Independent Non-Executive Director	Alain Dromer	Non-Executive Director of Santander UK plc Director of Moody's Investors Service Ltd Director of Moody's Investor Service EMEA Ltd Independent Member of the Board of Moody's Deutschland GmbH Independent Member of the Board of Moody's France SAS Non-Executive Director of Majid Al Futtaim Trust LLC Non-Executive Director of Henderson European Focus Trust plc
Banco Santander nominated Non-Executive Director	Manuel Soto	Non-Executive Director of Santander UK plc Director of Cartera Industrial REA SA Member of advisory board of Grupo Barceló SA Member of advisory board of Befesa Medio Ambiente SA
Independent Non-Executive Director	Scott Wheway	Non-Executive Director of Santander UK plc Director of Centrica plc Chairman of Aviva Insurance Limited
Independent Non-Executive Director	Chris Jones	Non-Executive Director of Santander UK plc Non-Executive Director of Redburn (Europe) Ltd Chairman of the Advisory Board of the Association of Corporate Treasurers Investment Trustee of the Civil Service Benevolent Fund
Independent Non-Executive Director	Ed Giera	Non-Executive Director of Santander UK plc Non-Executive Director of ICBC Standard Bank Plc Non-Executive Director of the Renshaw Bay Real Estate Finance Non-Executive Director of Pension Insurance Corporation Group Limited

Independent Executive DirectorNon-	Annemarie Durbin	Non-Executive Director of Santander UK plc Non-Executive Director of WH Smith PLC Member of the UK Listing Advisory Panel Non-Executive Director of Ladbrokes Coral Group plc
Independent Non-Executive Director	Genevieve Shore	Non-Executive Director of Santander UK plc Non-Executive Director of Moneysupermarket.com Group plc Non-Executive Director Next Fifteen Communications Group plc Non-Executive Director of Arup Limited

The business address of each of the directors is 2 Triton Square, Regent's Place, London NW1 3AN with telephone number +44 (0) 800 389 7000.

Conflicts of Interest

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

Credit Ratings

As at the date of this Offering Memorandum, the long-term obligations of the Issuer are rated BBB by S&P, Baa1 by Moody’s and A by Fitch, and the short-term obligations of the Issuer are rated A-2 by S&P, P-2 by Moody’s and F1 by Fitch.

Taxation

United Kingdom Taxation

The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law and HM Revenue & Customs practice, describe the United Kingdom withholding tax treatment of payments of Distributions in respect of the Securities. They relate only to the position of persons who are the absolute beneficial owners of their Securities and may not apply to certain classes of persons such as dealers, to whom special rules may apply. They are not exhaustive. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Securities. Prospective holders of Securities who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The Taxation of Regulatory Capital Securities Regulations 2013 (as amended) (the "**Regulations**") provide an exemption such that payments of Distributions by the Issuer on the Securities can be made without withholding or deduction for or on account of United Kingdom income tax so long as the Securities qualify, or have qualified, as (i) Additional Tier 1 instruments and form, or have formed, a component of Additional Tier 1 capital or (ii) Tier 2 instruments and form, or have formed, a component of Tier 2 capital (in either case for the purposes of the Commission Regulation (EU) No 575/2013) provided that there are no arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations in respect of the Securities.

Irrespective of whether Distributions may be paid by the Issuer without withholding or deduction for or on account of United Kingdom tax pursuant to the Regulations, while the Securities are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007, payments of Distributions on the Securities may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Whilst the Securities are and continue to be so listed, payments of Distributions by the Issuer on the Securities may be made without withholding or deduction for or on account of United Kingdom income tax.

In other cases, absent any other relief or exemption (such as a direction by HM Revenue & Customs that Distributions may be paid without withholding or deduction for or on account of tax to a specified Securityholder following an application by that Securityholder under an applicable double tax treaty), an amount must generally be withheld on account of United Kingdom income tax at the basic rate (currently 20 per cent.) from payments of Distributions on the Securities.

Foreign Account Tax Compliance Act

As a result of Sections 1471 through 1474 of the Code and related Treasury regulations (collectively, "**FATCA**") and the intergovernmental agreement relating to FATCA between the United States and the United Kingdom (the "**U.S. – UK IGA**"), as well as applicable UK regulations implementing the U.S. – UK IGA, the Issuer may be required to comply with certain reporting requirements. It is also possible that payments on the Securities may be subject to a withholding tax of 30% beginning on 1 January 2019. However, assuming the Issuer complies with any applicable reporting requirements pursuant to the U.S. – UK IGA, the Issuer should not be subject to withholding tax under FATCA on payments it receives and would generally not be required to withhold tax under FATCA from payments in respect of the Securities. In addition, while the Securities are held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under or in respect of the Securities by the Issuer or any paying agent, given that each of the entities in the payment chain between the Issuer and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under the U.S.-UK IGA will be unlikely to affect the Securities.

The Issuer will not pay Additional Amounts on account of any withholding tax imposed by FATCA. FATCA is particularly complex. Each prospective holder of the Securities should consult its own tax adviser to obtain a more detailed explanation of FATCA and to learn how this legislation might affect each holder in its particular circumstances.

Subscription and Sale

Pursuant to a Subscription Agreement dated 6 April 2017 between the Issuer and Banco Santander, S.A., Barclays Bank PLC, Citigroup Global Markets Limited and Morgan Stanley & Co. International plc (together the "**Managers**" and each, a "**Manager**"), the Managers have jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Securities at the issue price of 100 per cent. of their principal amount less a combined management and underwriting commission payable under the Subscription Agreement. The Managers are entitled to terminate and to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer.

The Managers propose initially to offer and sell the Securities at the offering price set forth on the front of this Offering Memorandum. After the initial offering of the Securities, the offering price at which the Securities are being offered may be changed at any time without notice.

Some of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Citibank, N.A., London Branch, an affiliate of Citigroup Global Markets Limited, one of the Managers, will act as Principal Paying Agent, Transfer Agent and Calculation Agent and Citigroup Global Markets Deutschland AG, also an affiliate of Citigroup Global Markets Limited, will act as Registrar under the Agency Agreement.

Conflicts of Interest

Banco Santander, S.A. is an affiliate of the Issuer. Client accounts over which Banco Santander, S.A. or any affiliate has investment discretion are not permitted to purchase the Securities without specific written approval of the accountholder.

Following the initial distribution of any of these Securities, affiliates of the Issuer may offer and sell these Securities in the course of their businesses as broker-dealers. Such affiliates may act as principals or agents in these transactions and may make any sales at varying prices related to prevailing market prices at the time of sale or otherwise. Such affiliates may also use this Offering Memorandum in connection with these transactions. None of the Issuer's affiliates is obligated to make a market in any of these Securities and may discontinue any market-making activities at any time without notice.

United States

Each Manager has acknowledged that the Securities have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or other relevant jurisdiction within the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S.

Each Manager has agreed that except as permitted by the Subscription Agreement, it has not offered, sold or delivered Securities and it will not offer, sell or deliver Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of all Securities, within the United States or to, or for the account or benefit of U.S. persons and only in accordance with Rule 903 of Regulation S and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Securities from it or through it during the Distribution Compliance Period a confirmation or notice setting forth the restrictions on offers and sales of the Securities within the United States or to or for the account or benefit of U.S. persons.

The Securities are being offered and sold only outside the United States to persons other than U.S. persons ("**foreign purchasers**", which term includes dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners, other than an estate or trust) in reliance upon Regulation S.

Terms used in this section of *"Subscription and Sale"* have the meanings given to them by Regulation S.

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

Each purchaser of Securities will be deemed to have represented and agreed as follows:

(1) It is purchasing the Securities for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a foreign purchaser that is outside the United States (or a foreign purchaser that is a dealer or other fiduciary as referred to above).

(2) It acknowledges that the Securities have not been registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold by the purchaser within the United States or to, or for the account or benefit of, U.S. persons.

(3) It agrees that the Issuer has no obligation to register the Securities under the Securities Act.

(4) It will not resell or otherwise transfer any Securities except outside the United States in compliance with Rule 903 or Rule 904 of Regulation S under the Securities Act pursuant to an effective registration statement under the Securities Act, in accordance with all applicable U.S. state securities laws.

(5) It will give to each person to whom it transfers Securities notice of any restrictions on transfer of those Securities.

(6) It understands that the Security will bear the legend in the form set out below.

(7) It acknowledges that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Securities as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

The Global Security will bear a legend to the following effect:

"THE SECURITIES REPRESENTED BY THIS GLOBAL SECURITY HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS GLOBAL SECURITY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. BY PURCHASING OR OTHERWISE ACQUIRING THE SECURITIES REPRESENTED BY THIS GLOBAL SECURITY, THE HOLDER AGREES FOR THE BENEFIT OF THE ISSUER THAT, IF IT SHOULD DECIDE TO DISPOSE OF THE SECURITIES REPRESENTED BY THIS GLOBAL SECURITY PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE SECURITIES REPRESENTED BY THIS GLOBAL SECURITY, THE SECURITIES REPRESENTED BY THIS GLOBAL SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND ONLY TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT.

EACH HOLDER OF THIS GLOBAL SECURITY OR AN INTEREST HEREIN AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS GLOBAL SECURITY OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

FOR THE PURPOSES HEREOF, "OFFSHORE TRANSACTION" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT."

Any Definitive Registered Securities will bear a legend to the following effect:

''THE SECURITIES REPRESENTED BY THIS DEFINITIVE SECURITY HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

THE REGISTERED OWNER HEREOF, BY PURCHASING THE SECURITIES IN RESPECT OF WHICH THIS DEFINITIVE SECURITY IS ISSUED, IF IT SHOULD DECIDE TO DISPOSE OF

THE SECURITIES REPRESENTED BY THIS DEFINITIVE SECURITY PRIOR TO THE DATE WHICH IS 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF THE SECURITIES REPRESENTED BY THIS DEFINITIVE SECURITY, AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH SECURITIES MAY ONLY BE OFFERED, SOLD, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DELIVERED TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S UNDER THE SECURITIES ACT.

EACH HOLDER OF THIS DEFINITIVE SECURITY AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS DEFINITIVE SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND."

United Kingdom

Each Manager has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of English law with respect to anything done by it in relation to such Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented and agreed that the Securities have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Securities has been or may be issued or has been or may be in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Manager has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(1) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Republic of Italy

The offering of the Securities has not been registered pursuant to Italian securities legislation and, accordingly, no Securities may be offered or sold in an offer to the public and that sales of the Securities in Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

No Securities may be offered, sold or delivered, nor may copies of this Offering Memorandum or of any other document relating to the Securities be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Italian Financial Services Act**") and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"), provided such qualified investors will act in their capacity and not as depositaries or nominees for other shareholders; or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Securities or distribution of copies of this Offering Memorandum or any other document relating to the Securities in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Italian Banking Act**");

(b) in compliance with Article 129 of the Italian Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Spain

Each Manager has represented and agreed that it will not make an offering of the Securities in Spain except in circumstances which do not constitute a public offering (*oferta pública*) of securities within the meaning of article 35 of the reinstated text of the Securities Market Law, as approved by Royal Legislative Decree 4/2015 of 23 October (*Texto Refundido de la Ley del Mercado de Valores, aprobado por el Real Decreto Legislativo 4/2015 de 23 de octubre*) and Royal Decree 1310/2005 of 4 November on admission to listing and on issues and public offers of securities (*Real Decreto 1310/2005 de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, de Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*), both as amended, and supplemental rules enacted thereunder or in substitution thereof from time to time.

In addition, each Manager has agreed that it will comply with all applicable laws and requirements including under MiFid, ESMA and any regulatory guidance in relation thereto.

Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Securities described herein. The Securities may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Securities constitutes a prospectus as such term is understood pursuant to article 1156 in connection with article 652a of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment

Scheme Act, and neither this Offering Memorandum nor any other offering or marketing material relating to the Securities may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Memorandum nor any other offering or marketing material relating to the offering, the Issuer or the Securities have been or will be filed with or approved by any Swiss regulatory authority. The Securities are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Securities will not benefit from protection or supervision by such authority.

General

No action has been or will be taken by the Issuer or any of the Managers that would permit a public offering of the Securities or possession or distribution of this document or other offering material relating to the Securities in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Neither the Issuer nor the Managers represent that the Securities may at any time lawfully be sold in or from any jurisdiction in compliance with any applicable registration requirements or pursuant to an exemption available thereunder or assumes any responsibility for facilitating such sales.

General Information

(1) The Global Security has been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 159288412 and an ISIN of XS1592884123.

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

(3) Subject to cancellation of Distributions as provided herein, and provided the Securities are not redeemed or cancelled earlier as provided herein, the yield of the Securities from 10 April 2017 to the First Reset Date is 6.75 per cent., on a quarterly basis. The yield is calculated as at the Issue Date on the basis of the issue price and the Initial Distribution Rate of 6.75 per cent. per annum. It is not an indication of future yield.

(4) The Issuer estimates that the amount of expenses related to the admission to trading of the Securities will be up to £4,200.

(5) It is expected that the applications for the Securities to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Regulated Market will be granted on or about 10 April 2017 and that such admission will become effective, and that dealings in the Securities on the London Stock Exchange will commence, on or about 11 April 2017.

(6) The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Securities. The issue of the Securities has been authorised by a written resolution of the board of directors of the Issuer passed on 21 March 2017 and a written resolution of a duly authorised sub-committee of the board passed on 27 March 2017.

(7) The Trust Deed provides that the Trustee may rely on certificates or reports from any auditors or other parties in accordance with the provisions of the Trust Deed whether or not any such certificate or report or engagement letter or other document in connection therewith contains any limit on the liability of such auditors or such other party.

(8) There has been no significant change in the financial or trading position of the Issuer or the Group since 31 December 2016 (the date of the Issuer's most recent financial statements). There has been no material adverse change in the prospects of the Issuer since 31 December 2016.

(9) There are no, nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the period of 12 months prior to the date of this document, a significant effect on the financial position or profitability of the Issuer or the Group.

(10) The Offering Memorandum will be available for inspection on Santander's website, www.aboutsantander.co.uk.

(11) Copies of the annual report and audited consolidated financial statements of the Issuer for the year ended 31 December 2015 and 31 December 2016, copies of this Offering Memorandum, the Trust Deed and the Agency Agreement and the constitutional documents of the Issuer will be available in electronic copy for inspection at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Securities are outstanding.

(12) Deloitte LLP, Registered Auditors with the Institute of Chartered Accountants in England and Wales, have audited, and rendered an unqualified audit report on, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, the consolidated financial statements of the Issuer for the year ended 31 December 2015. PricewaterhouseCoopers LLP, Registered Auditors with the Institute of Chartered Accountants in England and Wales, have audited, and rendered an unqualified audit report on, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, the consolidated financial statements of the Issuer for the year ended 31 December 2016. Neither Deloitte LLP nor PricewaterhouseCoopers LLP has any interest in the Issuer.

(13) There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Securityholders in respect of the Securities.

(14) Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business.

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