

# TERMS AND CONDITIONS OF CAPITAL SECURITIES ISSUED ON 24 JUNE 2014



## **Santander UK Group Holdings Limited**

### **£500,000,000 Perpetual Capital Securities**

This document contains the terms and conditions relating to the £500,000,000 Perpetual Capital Securities (the **Securities**) issued by Santander UK Group Holdings Limited (the **Issuer**).

The Securities were purchased in full by Banco Santander, S.A., which is the Issuer's ultimate parent company and are not available for purchase by any person. Accordingly, this document does not constitute an offer to sell the Securities.

#### **STRUCTURING ADVISORS**

**MORGAN STANLEY**

**SANTANDER GLOBAL  
BANKING & MARKETS**

**UBS INVESTMENT BANK**

## CONDITIONS OF THE SECURITIES

*The following is the text of the Conditions of the Securities (subject to modification and the removal of provisions in italics):*

The £500,000,000 Perpetual Capital Securities (the **Securities**) are issued by Santander UK Group Holdings Limited (the **Issuer**) on 24 June 2014 (the **Issue Date**).

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and denomination

The Securities are in registered form in amounts of £200,000. A certificate (**Certificate**) will be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar (the **Register**).

#### 1.2 Title

Title to the Securities passes only by registration in the Register. The holder of any Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Securityholder** and (in relation to a Security) **holder** means the person in whose name a Security is registered in the Register.

### 2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

#### 2.1 Transfers

A Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar.

#### 2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Securities will, within ten business days of receipt by the Registrar of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Security to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in London.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Securities not so transferred will, within ten business days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Securities not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

#### 2.3 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer or the Registrar but upon payment (or the giving of such indemnity as the Issuer or the Registrar may

reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

## 2.4 Closed periods

No Securityholder may require the transfer of a Security to be registered during the period of 15 days ending on the due date for any payment of principal or Distribution on that Security.

## 3. STATUS AND SUBORDINATION

### 3.1 Status

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

### 3.2 Subordination

#### (a) *Condition to payment*

Subject to Condition 4, payments in respect of or arising from the Securities are, without prejudice to the right of the Issuer to cancel payments under Condition 5.1, conditional upon the Issuer being solvent at the time of payment by the Issuer and no payments shall be due and payable in respect of 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 (x) it is able to pay its debts to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities. A report 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 and the Securityholders as correct and sufficient evidence thereof.

#### (b) *Solvency Claims*

Without prejudice to the rest of these Conditions, amounts in respect of principal or Distributions in respect of which both of the Solvency Claim Criteria are fulfilled (such amounts, **Solvency Claims**) will be payable by the Issuer in a winding-up or administration as provided in Condition 4 and any redemption pursuant to Condition 7. A Solvency Claim shall not bear interest and shall be subject to write-down as further provided in Condition 8.1.

The following comprise the **Solvency Claim Criteria** in relation to any amounts in respect of principal or Distributions:

- (i) the conditions referred to in Condition 3.2(a) are not satisfied on the date upon which the same would otherwise be due and payable; and
- (ii) such amounts are not cancelled pursuant to Condition 5.1.

### 3.3 No set-off

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.

#### 4. **WINDING-UP**

In the event of a winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given 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, but subject as provided in this Condition 4), 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 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 the holders of Other Tier 1 Instruments of the Issuer and the holders of 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, but ranking junior to the claims of Senior Creditors, on the assumption that the amount that such Securityholder was entitled to receive in respect of each 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 together with, to the extent not otherwise included within the foregoing, its pro rata share of any Solvency Claims attributable to the Security.

#### 5. **DISTRIBUTIONS**

##### 5.1 **Cancellation of Distributions**

The Issuer will cancel any Distribution Amount otherwise scheduled to be paid on a Distribution Payment Date to the extent that:

- (a) such Distribution Amount, when aggregated together with any distributions on all other own funds instruments (excluding Tier 2 Capital Instruments), scheduled for payment in the then current financial year exceed the amount of the Issuer's Distributable Items; or
- (b) payment of such Distribution Amount would not, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive, be in compliance with the restrictions relating to the Maximum Distributable Amount (if any) then applicable to the Group.

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

If practicable, notice of any cancellation of payment of a scheduled Distribution Amount must be given to the Securityholders (in accordance with Condition 13) and the Registrar 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.

The cancellation of any Distribution Amount in accordance with this Condition 5.1 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 payments are non-cumulative.

## 5.2 Distribution Payment Dates

Subject to Condition 3 and Condition 5.1, 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 Condition 3 and Condition 5.1, Distributions shall be payable on the Securities on the First Distribution Payment Date and quarterly in arrear thereafter, on 24 March, 24 June, 24 September and 24 December in each year (each a **Distribution Payment Date**), as provided in this Condition 5.

## 5.3 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 Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Security have been paid; and
- (b) unless the Issuer is at such time acting as Registrar, the date on which the full amount of the moneys payable in respect of such Securities has been received by the Registrar and notice to that effect has been given to the Securityholders in accordance with Condition 13.

Distributions in respect of any Security shall be calculated per £200,000 in Principal Amount thereof (the **Calculation Amount**). The amount of Distributions calculated per £200,000 for any period shall be equal to the product of the relevant Distribution Rate(s), £200,000 and the Day Count Fraction, rounding the resulting figure to the nearest penny (half a penny being rounded upwards). In the case of any Distribution Period falling between two Reset Periods where more than one applicable Distribution Rate applies, the amount of Distributions shall be calculated by the Calculation Agent as though each period in such Distribution Period for which a different Distribution Rate was applicable was a separate Accrual Period.

**Day Count Fraction** means:

- (i) in respect of the period from (and including) the Issue Date to (but excluding) the First Distribution Payment Date (the **First Accrual Period**), the sum of:
  - (A) the number of days in such First Accrual Period falling in the Determination Period beginning on the Issue Date divided by four times the number of days in such Determination Period;
  - (B) the number of days in such First Accrual Period falling in the next following Determination Period divided by four times the number of days in such Determination Period; and
  - (C) the number of days in such First Accrual Period falling in the third next following Determination Period divided by four times the number of days in such Determination Period;

- (ii) and thereafter, the number of days in the period from and (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 Determination Period during which the Accrual Period ends.

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

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

#### **5.4 Initial Distribution Rate**

The Distribution Rate for the period from, and including, the Issue Date to, but excluding, the First Reset Date is 6.625 per cent. per annum (the **Initial Distribution Rate**). Subject to Condition 5.1, the Distribution Amount in respect of each such Distribution Period will amount to £3,312.50 per £200,000 (other than the Distribution Period ending immediately prior to the First Distribution Payment Date for which the Distribution Amount will amount to £9,937.50 per £200,000).

#### **5.5 Reset Distribution Rates**

The Distribution Rate in respect of each Reset Period shall be the aggregate of the Margin and the relevant 5 year Swap Rate for such Reset Period, all as determined by the Calculation Agent (each a **Reset Distribution Rate**).

#### **5.6 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 Distribution Determination Date, determine the Reset Distribution Rate in respect of the relevant Reset Period and calculate the amount of Distributions payable in respect of a Calculation Amount on each Distribution Payment Date falling in the period from (but excluding) such relevant Reset Date to (and including) the next Reset Date (the **Distribution Amount**).

#### **5.7 Publication of Reset Distribution Rates and Distribution Amounts**

Unless the Securities are to be redeemed on the First Reset Date, the Issuer shall cause notice of each Reset Distribution Rate and the related Distribution Amount per Calculation Amount to be given to the Securityholders in accordance with Condition 13 as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

#### **5.8 Calculation Agent**

The Issuer may from time to time replace the Calculation Agent with another financial institution. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails to determine a Reset Distribution Rate or calculate the related Distribution Amount or effect the required publication thereof (in each case as required pursuant to these Conditions), the Issuer shall forthwith appoint another financial institution 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.

#### **5.9 Determinations of Calculation Agent binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, 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 Registrar and all Securityholders and (in the absence as aforesaid) no liability to 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. PAYMENTS**

### **6.1 Payments in respect of Securities**

Payments of principal and Distributions in respect of each Security will be by transfer to the registered account of the Securityholder. Payments of principal and payments of Distributions due otherwise than on a Distribution Payment Date will only be made against surrender (in the case of payments of principal) or presentation (in respect of payments of interest) of the relevant Certificate at the specified office of the Registrar. Distributions on Securities due on a Distribution Payment Date will be paid to the holder shown on the Register at the close of business on the date (the **record date**) being the fifteenth day before the due date for the payment of the Distribution.

For the purposes of this Condition 6.1, a Securityholder's **registered account** means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the Register at the close of business, in the case of principal, on the second Business Day before the due date for payment and, in the case of Distributions, on the relevant record date.

### **6.2 Payments subject to applicable 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.

### **6.3 No commissions**

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

### **6.4 Payment on Business Days**

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

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

Accordingly, if a payment is due on any day that is not a Business Day, payment will be made on the first following day which is a Business Day or, in the case of a payment of principal or a payment of Distributions due otherwise than on a Distribution Payment Date, if later, on the Business Day on

which the relevant Certificate is surrendered at the specified office of the Registrar and Securityholders shall not be entitled to further interest or other payment in respect of any such delay.

## **6.5 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.

## **6.6 Registrar**

The Issuer will ensure that there is at all times a Register maintained, and a Registrar appointed, in respect of the Securities. Notice of any termination or appointment, and of any changes in the specified office of the Registrar from time to time, will be given to the Securityholders promptly by the Issuer in accordance with Condition 13.

## **7. REDEMPTION AND PURCHASE**

### **7.1 No fixed redemption date**

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 them in accordance with the following provisions of this Condition 7.

### **7.2 Redemption at the option of the Issuer**

Subject to Regulatory Approval and compliance with the Regulatory Preconditions, the Issuer may (having given not less than 30 nor more than 60 days' notice to the Registrar and, in accordance with Condition 13, the Securityholders (which notice shall, subject as provided in Condition 7.7, be irrevocable)) redeem in accordance with these Conditions on the First Reset Date or on each Distribution Payment Date thereafter all, but not some only, of the Securities at their Principal Amount together with Distributions accrued to (but excluding) the date of redemption together with, to the extent not otherwise included within the foregoing, any Solvency Claims attributable to the Securities.

### **7.3 Redemption for regulatory reasons**

Subject to Regulatory Approval and 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 Registrar and, in accordance with Condition 13, the Securityholders (which notice shall, subject as provided in Condition 7.7, 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 Distributions accrued to (but excluding) the date of redemption together with, to the extent not otherwise included within the foregoing, any Solvency Claims attributable to the Securities.

### **7.4 Redemption for tax reasons**

If immediately prior to the giving of the notice referred to below, as a result of a Tax Law Change:

- (i) in making any payments on the Securities, the Issuer will or would be required to pay Additional Amounts on the Securities;



- (ii) the Issuer 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;
- (iii) the Issuer 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);
- (iv) the Issuer would, in the future, have to bring into account a taxable credit if the Principal Amount of the Securities were written down, on a permanent or temporary basis, or the Securities were converted into Ordinary Shares,

(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 Regulatory Approval and compliance with the Regulatory Preconditions and having given not less than 30 nor more than 60 days' notice to the Registrar and, in accordance with Condition 13, the Securityholders (which notice shall, subject as provided in Condition 7.7, 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 Distributions accrued to (but excluding) the date of redemption together with, to the extent not otherwise included within the foregoing, any Solvency Claims attributable to the Securities.

## **7.5 Purchases**

Subject to Regulatory Approval and compliance with the Regulatory Preconditions, and subject to any restrictions contained in the prevailing Capital Rules, the Issuer and any of its Subsidiaries for the time being may at any time purchase Securities in the open market or otherwise at any price.

## **7.6 Cancellations**

All Securities purchased in accordance with Condition 7.5 above by or on behalf of the Issuer or any of its Subsidiaries may, to the extent such cancellation is not prohibited by the applicable Capital Rules and subject to compliance with all relevant regulatory rules including (to the extent then required by the Regulator or the Capital Rules) on notification to, or obtaining consent or non-objection from, the Regulator, be surrendered for cancellation by surrendering each such Security to the Registrar and, if so surrendered, shall, together with all Securities redeemed by the Issuer, be cancelled forthwith. Any Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

## **7.7 Notices final**

Subject as provided in the paragraphs below, upon the expiry of any notice as is referred to in Condition 7.2, 7.3 or 7.4, the Issuer shall be bound to redeem the Securities to which the notice refers in accordance with the terms of such paragraph.

If the Issuer has elected to redeem the Securities pursuant to Condition 7.2, 7.3 or 7.4 but the conditions referred to in Condition 3.2(a) are not satisfied on the applicable redemption date, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and no payment of the redemption amount will be due and payable.

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, no payment of the redemption amount will be due and payable and an Automatic Write Down shall occur as described in Condition 8.

## **8. LOSS ABSORPTION**

### **8.1 Loss Absorption Measure**

If a Loss Absorption Event occurs as of any Financial Reporting Date or Requested Calculation Date, the Issuer shall immediately notify the Regulator and the Securityholders (in accordance with Condition 13) 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;
- (ii) any Solvency Claims; or
- (iii) the payment of any Distributions for any period.

As a result, the full Principal Amount of the Securities shall be written down to zero and the Securityholders shall lose their entire investment in the Securities.

### **8.2 Conditions to Write Down**

As soon as reasonably practicable following the determination by the Issuer that a Loss Absorption Event has occurred, the Issuer shall give the relevant Write Down Notice (which notice shall be irrevocable), accompanied by a certificate signed by two directors of the Issuer stating that the Loss Absorption Event has occurred.

**Write Down Notice** means a notice which specifies that a Loss Absorption Event has occurred and the Write Down Date.

### **8.3 Consequences of a Loss Absorption Measure**

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 may never be reduced to below zero.

### **8.4 Loss Absorption Event**

A **Loss Absorption Event** shall occur if the Common Equity Tier 1 Capital Ratio of the Group falls below 7 per cent.

## **9. TAXATION**

### **9.1 Payment without withholding**

All payments of principal and interest 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 United Kingdom, or any political subdivision of either of the same or by any 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 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 respective amounts of principal, and interest, if applicable, which would have been receivable in respect of the 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 (a) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence 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 United Kingdom other than the mere holding of such Security; or
- (ii) where presentation is required, where such Security is presented for payment in the United Kingdom; or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive; or
- (iv) where presentation is required, presented for payment by, or on behalf of, a holder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Registrar in a Member State of the European Union; or
- (v) 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.

As provided in Condition 6.2, 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 a governmental 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

### **9.2 Additional Amounts**

Any reference in these Conditions to any Distributions in respect of the Securities and the Principal Amount 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 interest are made within a period of 10 years in the case of principal and five years in the case of interest from the Relevant Date relating thereto. The Issuer shall be discharged from its obligation to pay principal on a Security to the extent that the relevant Certificate has not been surrendered to the Registrar by the end of the period of 10 years from the Relevant Date in respect of such payment.

## **11. EVENTS OF DEFAULT**

### **11.1 Events of Default**

Notwithstanding any of the provisions below in this Condition 11, the right to institute winding-up proceedings is limited to circumstances where payment 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 interest or principal due in respect of the Securities or any of them, any Securityholder may institute proceedings for the winding-up of the Issuer and/or prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer for such payment, but may take no further or other action to enforce, prove or claim for any such payment. No payment in respect of the Securities may be made by the Issuer pursuant to this Condition 11.1 nor will any Securityholder 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 or distribute a dividend, unless the Issuer has given prior written notice to, and received consent or non-objection from, the Regulator.

### **11.2 Enforcement**

Without prejudice to Condition 11.1, any Securityholder may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under these Conditions and the Securities (other than any payment obligation of the Issuer under or arising from the Securities including, without limitation, payment of any principal or interest 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, 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 11.2 shall, subject to Condition 11.1, prevent any Securityholder 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 any payment obligations of the Issuer arising from the Securities (including without limitation, payment of any principal or interest in respect of the Securities and any damages awarded for any breach of any obligations).

### **11.3 Extent of Securityholders' remedy**

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

## **12. REPLACEMENT OF CERTIFICATES**

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

### **13. NOTICES**

All notices to the Securityholders will be valid if mailed to them at their respective addresses in the Register maintained by the Registrar. Any notice shall be deemed to have been given on the second day after being so mailed.

### **14. RESOLUTIONS OF SECURITYHOLDERS AND MODIFICATION**

#### **14.1 Resolution by Securityholders**

The Issuer may, with the written consent of at least 90 per cent. of Securityholders (and subject to Regulatory Approval), make any modification to any of these Conditions. Any modification shall be binding on the Securityholders and notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 13.

#### **14.2 Modification**

The Issuer may, without the consent of the Securityholders (but subject to Regulatory Approval), make any modification of any of these Conditions for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or any modification of any of these Conditions which is not materially prejudicial to the interests of the Securityholders. Any modification shall be binding on the Securityholders and notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 13.

### **15. GOVERNING LAW**

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

### **16. JURISDICTION**

16.1 Subject to Condition 16.3 below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Securities, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Securities (a **Dispute**) and accordingly each of the Issuer and the Securityholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

16.2 For the purposes of this Condition 16, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

16.3 To the extent allowed by law, the Securityholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

### **17. RIGHTS OF THIRD PARTIES**

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

### **18. DEFINITIONS**

In these Conditions:

**5 year Swap Rate** means (i) the annualised mid-swap rate with a term of 5 years as displayed on Reuters screen ISDAFIX4 as at 11:00 a.m. (London time) on the relevant Reset Distribution Determination Date or (ii) if the 5 year Swap Rate does not appear on such screen page at such time on the relevant Reset Distribution Determination Date, the 5 year Swap Rate will be the annualised percentage rate determined on the basis of the mid-market semi-annual swap rate provided to the Calculation Agent at approximately 11:00 a.m. (London time) on the relevant Reset Distribution Determination Date by five leading swap dealers in the interbank market selected by the Calculation Agent after consultation with the Issuer. For this purpose, the mid-market semi-annual swap rate means the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a Actual/365 day count basis) of a fixed-for-floating sterling interest rate swap which (a) has a term of 5 years commencing on the relevant Reset Date; (b) 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 (c) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis). If at least three quotations are provided to the Calculation Agent, 5 year Swap Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided to the Calculation Agent, the 5 year Swap Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided to the Calculation Agent, the 5-year Swap Rate will be the quotation provided. If no quotations are provided, the 5-year Swap Rate will be determined by the Calculation Agent.

**Accrual Period** has the meaning given to it in Condition 5.3.

**Approved Winding-up** means a solvent winding-up of the Issuer solely for the purposes of a reorganisation or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved with the written consent of at least 90 per cent. of Securityholders and (ii) do not provide that the Securities shall thereby become payable.

**Automatic Write Down** means (*pari passu* and *pro rata* with the write down or conversion into Ordinary Shares, as applicable, of any other Loss Absorbing Instruments (where possible)) 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 the Securities on the Business Day immediately following the determination by the Issuer that the Loss Absorption Event has occurred, such write down being referred to as a **Write Down**, and **Written Down** being construed accordingly. For the avoidance of doubt, upon the automatic write-down of principal and Distributions and cancellation of the Securities on the Business Day immediately following the determination by the Issuer that the Loss Absorption Event has occurred, no Securityholder will have any rights against the Issuer with respect to repayment of the Principal Amount of the Securities, any Solvency Claims or the payment of Distributions on such Securities for any period.

**Assets** means the unconsolidated gross assets of the Issuer, as shown in the latest audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the directors of the Issuer or, if the Issuer is in a winding-up or administration, its liquidator or, administrator may determine.

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

**Calculation Agent** means the Registrar 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 5.3.

**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 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 (and, for the avoidance of doubt, including as at the Issue Date the rules contained in, or implementing the Capital Requirements Directive and the Capital Requirements Regulation and the relevant regulations, requirements, guidelines and policies of the Regulator as may be from time to time applicable to the Group).

**Certificate** has the meaning given to it in Condition 1.1.

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

**Common Equity Tier 1** means, as of any date, the sum, expressed in sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Group as of such date, less any deductions from Common Equity Tier 1 Capital required to be made as of such date, in each case as calculated by the Issuer 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, as of any Financial Reporting Date or Requested Calculation Date (as the case may be), the ratio of Common Equity Tier 1 of the Group as of such date to the Risk Weighted Assets of the Group as of the same date, expressed as a percentage.

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

**Determination Date** has the meaning given to it in Condition 5.3.

**Determination Period** has the meaning given to it in Condition 5.3.

**Distributable Items** means, subject as otherwise defined in the Capital Rules:

- (i) the amount of the profits of the Issuer as at the end of the 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 unconsolidated accounts of the Issuer.

**Distribution Amount** means the amount due on each Security on a Distribution Payment Date.

**Distribution Payment Date** has the meaning given to it in Condition 5.2.

**Distribution Period** means the period beginning on (and including) the Issue Date and ending on (but excluding) the First Distribution Payment Date and each successive period beginning on (and including) a Distribution Payment Date and ending on (but excluding) the next succeeding Distribution Payment Date.

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

**Financial Reporting Date** means each business day on which the Issuer publishes financial information.

**First Accrual Period** has the meaning given to it in Condition 5.3.

**First Distribution Payment Date** means 24 March 2015.

**First Reset Date** means 24 June 2019.

**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.

**Initial Distribution Rate** has the meaning given to it in Condition 5.4.

**Issue Date** has the meaning given to it in the preamble to these Conditions.

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

**Liabilities** means the non-consolidated gross liabilities of the Issuer, as shown in the latest 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 a winding-up or administration, its liquidator or, administrator may determine.

**Loss Absorbing Instrument** means any instrument (other than the Securities) issued directly or indirectly by the Issuer or another entity within the Group which (a) qualifies as Tier 1 Capital of the Group; and (b) which may, in accordance with its terms or otherwise, have all or some of its principal amount written down or converted into Ordinary Shares upon the occurrence of the Loss Absorption Event.

**Loss Absorption Event** has the meaning given to it in Condition 8.4.

**Margin** means 4.441 per cent. per annum.

**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 or implementing the Capital Requirements Directive).

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

**Ordinary Shares** means ordinary shares in the capital of the Issuer.



**Other Tier 1 Instruments** means any securities of the Issuer which 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.

**Payment Day** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

**Principal Amount** means, in relation to each Security at any time, the principal amount of such Security at that time.

**record date** has the meaning given to it in Condition 6.1.

**registered account** has the meaning given to it in Condition 6.1.

**Register** has the meaning given to it in Condition 1.1.

**Registrar** means the Issuer, with specified office at 2 Triton Square, Regent's Place, London NW1 3AN, United Kingdom, or a third party appointed by the Issuer from time to time with a specified office in London to the role of registrar in respect of the Securities.

**Regulator** means the Prudential Regulation Authority (PRA) or, if the PRA ceases to be the governmental authority in the UK having primary bank supervisory authority in prudential matters with respect to the Group, the successor governmental authority in the UK having primary bank supervisory authority in prudential matters with respect to the Group.

**Regulatory Approval** means, at any time, such approval, consent, prior permission or non-objection from, 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 date of the issue of the Securities that does, or would be likely to, result in the Securities being fully excluded from the Tier 1 Capital of the Group.

**Regulatory Preconditions** means:

- (a)
  - (i) the Issuer having replaced the Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
  - (ii) the Issuer having demonstrated to the satisfaction of the Regulator that the own funds of the Issuer would, following such redemption or repurchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time; or
  - (iii) if, at the time of such redemption or repurchase, the prevailing Capital Rules permit the redemption or repurchase after compliance with an alternative pre-condition to either of those set out in paragraphs (i) and (ii) above, or require compliance with an additional pre-condition, the Issuer having complied with such other pre-condition; and
- (b) in the case of a redemption pursuant to Conditions 7.3 or 7.4 occurring prior to the First Reset Date only,

- (i) the Issuer demonstrating 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 time of the issue of the Securities and are (in the case of a redemption pursuant to Condition 7.3) sufficiently certain or (in the case of a redemption pursuant to Condition 7.4) material; or
- (ii) such redemption not being prohibited by the Capital Rules.

**Relevant Date** means the date on which the payment in respect of the Securities first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Registrar 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 13.

**Requested Calculation Date** means any business day (other than a Financial Reporting Date) on which the Common Equity Tier 1 Capital Ratio is calculated upon the instruction of the Regulator.

**Reset Date** means the First Reset Date and each fifth anniversary thereof.

**Reset Distribution Determination Date** means the day falling two Business Days prior to the relevant Reset Date.

**Reset Distribution Rate** has the meaning given in Condition 5.5.

**Reset Period** means each period beginning on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date thereafter and **relevant Reset Period** shall be construed accordingly.

**Risk Weighted Assets** means, as of any date, the aggregate amount, expressed in sterling, of the risk weighted assets of the Group as of such date, as calculated by the Issuer in accordance with the then prevailing Capital Rules.

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

**Securityholders** has the meaning given to it in Condition 1.2.

**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).

**Solvency Claim** has the meaning given to it in Condition 3.2(b).

**Solvency Claim Criteria** has the meaning given to it in Condition 3.2(b).

**Subsidiary** has the meaning given to it under Section 1169 of the Companies Act 2006 (as amended from time to time).

**Tax Event** has the meaning given to it in Condition 7.4.

**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 or official interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority 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 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 date of the issue of the Securities.

**Tier 1 Capital** has the meaning given to it (or any successor term) in the Capital Rules.

**Tier 2 Capital** has the meaning given to it (or any successor term) in the Capital Rules.

**Tier 2 Capital Instruments** means any instruments of the Issuer which are Tier 2 Capital of the Issuer and which rank on a winding-up or in respect of a distribution or payment of dividends or any other payments thereon senior to the Securities but junior to all creditors falling within the definition of paragraph (a) of the definition of Senior Creditors.

**UK** means the United Kingdom of Great Britain and Northern Ireland.

**Write Down Date** means the date that will be specified as such in the relevant Write Down Notice, which shall be the Business Day following the determination by the Issuer that the Loss Absorption Event has occurred.

**Write Down Notice** has the meaning given to it in Condition 8.2.